C2950-3

# M&MD

MARKETING & MEDIA DECISIONS

AUGUST 1990 $4.00

# MEDIA COSTS 1991

**It's a cold, hard light that's beaming in on budgets and costs. Who gets what?**

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# EDITOR'S NOTE

**In an economy that has everyone guessing and then guessing again, making a call on what's next is as easy as leaving Las Vegas with your money intact. Maybe that's why our poll of media directors on anticipated media unit costs in 1991 turned up an average jump of 5.6% — exactly the same as they say occurred in 1990.**

**In conversations with economists, analysts, clients and media buyers and sellers, it's clear that even the constants seem likely to change. Television will continue to benefit from its supply/demand advantages, though that supply is growing. Magazine budgets are tight as a fist, and clients are likely to hammer away at publishers; but negotiations have taken a big toll on their margins, and a postal hike may push publishers to the wall. Newspapers' national rates have become much more flexible as the dailies struggle to maintain whatever business they've got. And outdoor, long dominated by tobacco, will probably see smokes fall to number two this year. So much for business as usual.**

**Those venturing a guess are playing it safe, with close agreement between the hikes that hit in 1990 and what they expect to pay next year. Cost predictions range from a high of +9% for cable, which is bulging with disaffected broadcast advertisers, to a low of 4% for daytime, which is surprisingly strong given daytime's past performance. These two segments also varied the most when you look at what people expected to pay in 1990 and what media directors say they actually paid. Cable was anticipated to rise 10.3%, yet media directors say the increase averaged only 7.6%; daytime was expected to only get a 0.6% lift in 1990, yet our poll shows they paid +4.2%.**

**The full figures kick off this special issue on page 23, followed by individual analyses. They'll shine a bright light on the year ahead. And as the tentativeness of the market suggests, we can use all the light we can get.**

# AS THEY SEE IT


**TELEVISION** Ron Lawrence 71
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**Cover Illustration by Tom Cushwa**

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# MEDIA COSTS

**Our poll of the top media departments shows an average unit-cost jump of 5.6%.**

## MEDIA COSTS RISES

| | 1991 vs.1990 Anticipated | 1990 vs. 1989 Actual | 1990 vs. 1989 Anticipated | 1989 vs. 1988 Actual | 1989 vs. 1988 Anticipated | 1988 vs. 1987 Actual | 1988 vs. 1987 Anticipated | 1987 vs. 1986 Actual | 1987 vs. 1986 Anticipated |
|---|---|---|---|---|---|---|---|---|---|
| **Average increases—unit cost** | | | | | | | | | |
| Nighttime network tv | 5.7% | 8.2% | 6.0% | 5.0% | 3.5% | 5.9% | 6.0% | 3.2% | 4.0% |
| Daytime network tv | 4.0 | 4.2 | 0.6 | - 8.0 | - 1.4 | - 3.4 | 0.5 | - 7.7 | - 3.8 |
| Spot tv | 4.9 | 4.8 | 5.1 | 4.6 | 5.0 | 5.9 | 8.4 | 5.6 | 5.5 |
| Network radio | 4.9 | 4.6 | 5.3 | 4.3 | 3.3 | 3.2 | 6.4 | 5.7 | 5.1 |
| Spot radio | 4.3 | 3.6 | 4.2 | 4.5 | 3.9 | 4.0 | 6.0 | 4.4 | 4.4 |
| Consumer magazines | 6.7 | 6.2 | 6.3 | 5.7 | 5.0 | 4.7 | 5.6 | 4.3 | 6.7 |
| Sunday national magazines | 5.3 | 6.3 | — | — | — | — | — | — | — |
| Cable | 9.0 | 7.6 | 10.3 | 18.7 | — | — | — | — | — |
| Daily newspapers | 5.7 | 6.1 | 5.2 | 6.1 | 6.1 | 6.0 | 6.6 | 6.5 | 7.2 |
| Outdoor posters | 4.4 | 4.9 | 4.8 | 6.2 | 5.1 | 4.8 | 5.3 | 4.9 | 5.3 |
| Business publications | 6.4 | 4.7 | 5.6 | 5.5 | 4.9 | 4.9 | 5.4 | 5.3 | 6.3 |
| Yellow pages | 5.2 | 5.3 | 5.3 | 5.7 | 5.3 | 5.2 | — | — | — |
| National syndication | 5.9 | 6.2 | 3.8 | 4.8 | 3.2 | 5.4 | — | — | — |

## ANTICIPATED MEDIA COST MOVEMENTS

1991 vs. 1990 (average changes)

| Medium | Unit Cost | Audience | CPM |
|---|---|---|---|
| Nighttime network tv | 5.7% | - 2.0% | 7.7% |
| Daytime network tv | 4.0 | - 2.8 | 6.8 |
| Spot tv | 4.9 | - 0.3 | 5.4 |
| Network radio | 4.9 | 0.8 | 4.1 |
| Spot radio | 4.3 | 1.9 | 4.7 |
| Consumer magazines | 6.7 | 1.0 | 5.7 |
| Sunday national magazines | 5.3 | 1.3 | 4.0 |
| Cable | 9.0 | 4.3 | 5.0 |
| Daily newspapers | 5.7 | 0.1 | 5.8 |
| Outdoor posters | 4.4 | 1.4 | 3.0 |
| Business publications | 6.4 | 1.5 | 4.9 |
| Yellow pages | 5.2 | 1.2 | 4.0 |
| National syndication | 5.9 | - 0.2 | 5.7 |

### Response Ranges

| | | | |
|---|---|---|---|
| Nighttime network tv | 0/+10 | - 7/+12 | +5/+12 |
| Daytime network tv | - 5/+10 | - 14/+8 | - 6/+13 |
| Spot tv | 0/+10 | - 7/+10 | +2/+12 |
| Network radio | 0/+10 | - 2/+5 | - 3/+9 |
| Spot radio | +1/+9 | - 1/+7.5 | +1/+10 |
| Consumer magazines | +3/+10 | - 1/+9 | +3/+10 |
| Sunday national magazines | +3/+11 | - 1/+4 | +1/+11 |
| Cable | 0/+20 | - 3/+14 | - 5/+10 |
| Daily newspapers | +2/+9 | - 5/+7 | +3/+9 |
| Outdoor posters | - 5/+9 | - 3/+7 | - 5/+7 |
| Business publications | +3/+10 | - 2/+7.5 | +3/+12 |
| Yellow pages | +2.5/+7.5 | 0/+2.5 | +2.5/+7.5 |
| National syndication | +2/+15 | - 5/+5 | - 3/+10 |

## ACTUAL MEDIA COST MOVEMENTS

1990 vs. 1989 (average changes)

| Medium | Unit Cost | Audience | CPM |
|---|---|---|---|
| Nighttime network tv | 8.2% | - 2.6% | 10.9% |
| Daytime network tv | 4.2 | - 4.2 | 8.4 |
| Spot tv | 4.8 | - 0.9 | 5.6 |
| Network radio | 4.6 | - 0.4 | 4.2 |
| Spot radio | 3.6 | 0.9 | 4.5 |
| Consumer magazines | 6.2 | 0.9 | 5.6 |
| Sunday national magazines | 6.3 | 0.7 | 5.4 |
| Cable | 7.6 | 3.6 | 4.1 |
| Daily newspapers | 6.1 | - 0.4 | 6.5 |
| Outdoor posters | 4.9 | 1.5 | 4.0 |
| Business publications | 4.7 | 0.5 | 5.3 |
| Yellow pages | 5.3 | 1.0 | 4.6 |
| National syndication | 6.2 | - 1.5 | 7.7 |

### Response Ranges

| | | | |
|---|---|---|---|
| Nighttime network tv | +3/+15 | - 6/+9 | +6/+15 |
| Daytime network tv | - 5/+9 | - 8/+5 | - 7/+11 |
| Spot tv | +2/+8 | - 5/+3 | +3/+10 |
| Network radio | 0/+11 | - 2/+1 | 0/+11 |
| Spot radio | 0/+6 | - 5/+5 | 0/+7 |
| Consumer magazines | +4/+8 | - 2.5/+10 | +2/+10 |
| Sunday national magazines | +2/+12 | - 5/+3.5 | +2/+11 |
| Cable | +2/+15 | 0/+10 | +2/+5 |
| Daily newspapers | +3/+10 | - 7/+6 | +3/+10 |
| Outdoor posters | - 5/+10 | - 1/+7 | - 5/+6 |
| Business publications | +4/+9 | - 1/+7 | +3/+9 |
| Yellow pages | +3.8/+7.5 | 0/+2 | +3.8/+7.5 |
| National syndication | +3/+11 | - 8/+4 | +1/+11 |

All Charts by Holly Klein

# WAIT TILL NEXT YEAR

**Exports are up, inventories are low and new markets have opened in Eastern Europe. Yet uncertainty is the only sure thing among economists. The call: slow growth.**

**by Brian Bagot**

It's fence-sitting time as experts try to read an economy that defies categorization. The soft landing that most predicted last year feels harder in the Northeast than in other regions of the U.S. And indicators are a mixed bag, causing a lot of economic double-speak.

"It will be a very fragile year," says the Conference Board's Delos Smith, who foresees "a decent year, but nothing spectacular." In fact, "slow growth" is this year's mantra.

On the up side, exports are expected to strengthen, which should ease inventory pile-up and spur production. But the flip side shows autos stalling in showrooms, for-sale signs fading on every other lawn and everyone from the federal government to your mother is learning to live on less. Business, too, is thinking lean and mean, and ad budgets, in the main, will freeze. Media, therefore, will proceed with caution when it comes to rates.

**Delos Smith**
*Economist, The Conference Board*

"We have a very optimistic forecast," says Smith, though recent softness in retail sales, he admits, may warrant revised thinking. For now, he pegs GNP growth for the rest of the year at 3.3%, slowing to 2.2% for the first half of 1991.

Smith's upbeat view stems from his conviction the exports will grow, priming the production pump. "Inventory investments are too low, and there's going to have to be some rebuilding," he explains.

Further, Smith doesn't see the consumer pessimism that is so widely talked about. "Our Consumer Confidence Index, even though it is not at the highest level, certainly is not showing [much of a decline]. Buying plans definitely picked up and expectations are still holding up very well."

The downside? The resolution of the "damn savings and loan mess," says Smith, who fears the costs and repercussions could seriously snag the economy.

**Edward McKelvey**
*Vice president, senior economist, Goldman Sachs & Co.*

Like Smith, McKelvey sees rebuilding at most levels of production and distribution. But when it comes to consumers, "underneath, demand will be really weak." Efforts by the government to cut spending also

## PROJECTED INCREASES AT A GLANCE

| | GNP | Unemployment | CPI | Interest Rates (T-bills, 3 months) |
|---|---|---|---|---|
| **Delos Smith** | | | | |
| Second half of '90 | 3.3% | 5.3% | 5.2% | 8.2% |
| First half of '91 | 2.2 | 5.3 | 5.5 | 8.1 |
| **Richard Rippe*** | | | | |
| Second half of '90 | 2.1 | 5.7 | 3.85 | 7.35 |
| First half of '91 | 2.2 | 5.6 | 4.0 | 7.65 |
| **Edward McKelvey** | | | | |
| Second half of '90 | 1.5 | 5.75 | 5.0 | 7.0 |
| First half of '91 | — | — | 5.0 | — |
| **David Klein** | | | | |
| Second half of '90 | 2.0 | 5.0 | 4.5 | 7.5 |
| First half of '91 | 2.0 | 5.0 | 4-4.4 | 7.75 |
| **Rosanne Cahn** | | | | |
| Second half of '90 | 1.3 | 5.6 | 4.4 | 7.25 |
| First half of '91 | 1.0 | 5.8 | 5.2 | 6.75 |

*Source: Marketing & Media Decisions.*
*Numbers supplied by research department of Dean Witter Reynolds.

# ECONOMIC FORECAST

add to his pessimism. "If they succeed in cutting the deficit, that's going to be a strain on the economy."

For the rest of this year, McKelvey sees an average GNP growth rate of 1.5%, with the third quarter seeing 2.2% and the fourth quarter 0.5%. The big spread is "because of a buildup in auto production in anticipation of a strike. I don't think it really signals a meaningful difference in the trend growth rate." First half 1991 GNP is expected to be "about 1%."

Looking back at last year, McKelvey agrees the economy had a soft landing. "The hard part has been the corporate profit center. Profits are down." Earnings for Standard & Poor 500 companies, per share after taxes, were down 3.7% in '89. That's after a 35% rise in '88.

**David Klein**
*Economist, Paine Webber*

Klein sees Eastern Europe being a plus for the U.S. economic picture, but "you're looking at countries that are going to have very large credit demands," and he questions whether lending-wary banks will in fact extend these nations' credit.

Meanwhile, Klein says the dollar's decline over the last half of '89 and the first half of '90 has had a "stimulative effect on exports. I think high exports are going to keep the dollar from losing ground."

Klein's short-term outlook is for a little bit slower than 2% growth. Unemployment will also be flat at about 5% throughout. Inflation should be "around 4.5% and a little bit lighter for the first half of '91, 4%-4.4%," he says.

**Rosanne Cahn**
*Vice president, economist, First Boston Corp.*

"It's a super-soft landing, which means we've avoided a recession," says Cahn. Cahn sees CPI increasing 4.4% for the second half and 5.2% for first half of '91. She cites "the imposition of sales and excise taxes, which boost the CPI." And unemployment is expected to be 5.6% for the second half, and 5.8% for first half of '91. She feels the unemployment picture is a pretty good one, although some economists might argue that a low unemployment rate contributes to wage inflation.

## MEDIA ANALYSTS

**Ed Atorino**
*Vice president, media analyst, Salomon Inc.*

Although the trouble the networks are having with erosion and ratings data had a negligible impact on upfront, Atorino still sees advertisers moving to other media in disgust. "I know advertisers are going to try to shift some dollars, but how much is a problem," he says.

He also reminds the world that there is a second part of the tv equation coming this fall, and that's the scatter market. "If advertisers are unhappy with audience levels or program development, scatter will be affected," Atorino explains. "On the other hand if the networks slow the audience decline, and they have a few hits in the fall, scatter market could be quite strong."

He sees, overall, network rates up about 7%-8%, but cable outpacing it once again by commanding double-digit jumps, between 10%-15%. In print, magazines should get increases of around 4%-5%, while newspapers will be in the vicinity of 3%-4%.

**Ken Noble**
*Media analyst, Paine Webber*

Newspaper ad rates should go up about 5% in the second half of this year and about 6.5% in the first half of '91, according to Noble. Magazines on the other hand may *want* to raise rates, but Noble is doubtful they will, even in the face of an impending postal rate hike early next year. "That's going to be passed along as much as possible to subscribers," he explains.

He thinks network tv is harder to call. "I think they'll be in the 5% to 6% area, too," he says cautiously. Cable should be stronger, with rates up about 10% as that medium's audience continues to expand.

Noble feels cable will push hard for solid gains because of "its continuing growth in audiences, continuing improvements in ratings technology and rate regulation on the basic services. It will tend to shift more of the increases, such as they are, to advertising and other non-regulated activities."

**Dennis McAlpine**
*Senior vice president, media analyst, Oppenheimer Co.*

"Theoretically," says McAlpine of tv, "network CPM should go down, and network unit prices should go down because the Ms are going down in the CPMs." That's theory — now to practice. "It's a great poker game." Right now, the oddsmakers — McAlpine won't commit — are calling for upped stakes in the mid-to-high single digits. For spot, McAlpine says it will be weaker, predicting only a 3% rate hike.

Tuning in cable, he thinks, "Basically, they're still going to sell off a discount, for the most part, to network. They're trying to decrease that discount, but I don't know if they'll be able to."

Magazines should get 6% increases on the card, but McAlpine says in some cases, "they're going to keep the rate the same and reduce the rate base," thus raising CPM. "Newspapers will be up 4%-5%," says McAlpine.

**Chris Dixon**
*Vice president, media analyst, Kidder Peabody*

"The bottom line is we're looking for somewhere between 6% and 6.5% growth in network. I expect to see a drop in automotive that should be more than offset by national packaged-goods advertisers."

He sees Fox playing some tricks in the marketplace, making it difficult to read this year. But with the upfront behind them, network tv execs should be able to push their rates up overall about 7%, according to Dixon, while local radio and tv should see increases of 6%. For magazines and direct mail, Dixon agrees with McCann-Erickson's projections and sees rates going up around 6.6% and 5.5%, respectively, in the face of hefty postal-rate increases. ■

# AS SAATCHI SEES IT

**Saatchi & Saatchi's seer makes a three-year call on the media's futures. For now, costs appear to be under control.**

**by Betsy Frank, senior vice president, director of television information and new media**

"Advertising Business Is in Recession, but Very Few Dare to Admit It."

-*Wall Street Journal*, April 26, 1990.

"Media Recession? Not Yet."

-*Advertising Age*, April 30, 1990.

Contradictory headlines like these make media forecasting even more difficult than usual. On the one hand, the print media, especially newspapers, are in the doldrums, and the most optimistic forecasts call for virtually flat revenues in 1990. The broadcast media, on the other hand, are anticipating continued growth.

Demand for network tv appears strong, with increased spending for packaged goods, fast foods and motion pictures compensating for automotive cutbacks. We project that three-**network** revenue will increase by 2% in 1990, 4% in 1991 and 6% in 1992. Significant increases for Fox will boost the four-network revenue total by 4%, 7%, and 9% over the next three years. With the Olympics and a presidential election, 1992 will be particularly strong.

The health of local television is, by definition, a function of the health of the individual local economies, which are currently soft. With **spot television** so dependent on the troubled retail sector and the uncertain automotive category, no one is predicting a quick turnaround.

There are a few bright spots, however. Fast foods and motion pictures could pick up some of the slack from troubled categories. The Television Bureau of Advertising (TVB) estimates that local stations could take in an additional $230 million in 1990, most of it in states with highly visible elections, including California, Florida, and Texas. Also, there is record-setting demand for children's television, which independent stations program on weekdays. In 1989, national spot grew about 3% and local 5%. We are projecting similar increases for 1990 and 1991, and somewhat higher for 1992.

As **cable** penetration and cable audiences continue to grow, advertisers are diverting more national television dollars to this generally efficient medium. It has become more sophisticated in its marketing and is producing more original programing. Cable is acquiring more top-tier sports events, and is finally able to better document its audiences. Therefore, we expect cable to grow at a healthy pace over the next few years, estimating 20% growth in 1990 and 17% in 1991 and 1992.

**ADVERTISING REVENUE ESTIMATES (MILLIONS)**

| | 1990 | % Change | 1991 | % Change | 1992 | % Change |
|---|---|---|---|---|---|---|
| Television | | | | | | |
| *Network | $10,215 | + 4.1% | $10,954 | + 7.2% | $11,970 | + 9.3% |
| Spot | 15,756 | + 4.0 | 16,392 | + 4.0 | 17,304 | + 5.6 |
| Cable | 2,366 | + 20.5 | 2,761 | + 16.7 | 3,230 | + 17.0 |
| Syndication | 1,250 | + 19.0 | 1,438 | + 15.0 | 1,610 | + 12.0 |
| Radio | | | | | | |
| Network | 450 | + 5.4 | 474 | + 5.3 | 506 | + 6.8 |
| Spot | 8,601 | + 7.0 | 9,115 | + 6.0 | 9,676 | + 6.2 |
| Magazines | 10,357 | + 4.0 | 10,979 | + 6.0 | 11,747 | + 7.0 |
| Newspapers | 33,048 | + 2.0 | 34,039 | + 3.0 | 35,401 | + 4.0 |
| Outdoor | 1,653 | + 8.0 | 1,775 | + 7.4 | 1,906 | + 7.4 |
| Total Major Media | 83,696 | + 4.2 | 87,927 | + 5.1 | 93,350 | + 6.2 |

*ABC/CBS/NBC/FBC

*Source: Saatchi & Saatchi Advertising.*

TRENDS

**"Media dependent on local retail, tobacco, autos, alcohol and financial services are likely to be ailing."**

**Betsy Frank**

Increasingly, advertisers are putting **syndication** under a microscope as they incorporate it into the television mix. Program clearances remain a problem, and many deals are now being made on a "tiered" basis, with costs and rating projections uncertain almost until the program goes on the air. As with cable, syndication will benefit from a healthy network marketplace; in fact, this year's demand for children's television, as well as healthy increases for a few very desirable programs, could drive revenues ahead by 19% in 1990.

Network **radio** has enjoyed a positive 1990 to date. However, the continuing softness among the automotives (and radio's dependence on this category) has caused us to revise our spot radio projections to a 5.4% increase.

While new titles have proliferated, the top **magazines** have seen their ad revenue decline, with the biggest hit coming from the tobacco category. Potentially even more damaging are automotive cutbacks, since this category traditionally accounts for about 15% of all magazine advertising. A shakeout of the glutted magazine marketplace appears to be getting underway. Like the networks, which saw their audiences erode, the larger magazines will have to work harder, offering more attractive prices, added value and integrated marketing opportunities. We see growth at only 4% this year, gaining some strength in 1991 and 1992.

If the headlines regarding the overall health of the media are contradictory, there is no uncertainty when it comes to **newspapers**, which are in the worst slump since the early '70s. Last year was weak, and 1990 is even weaker, especially in the Northeast.

In the past, trouble in one ad revenue sector has generally been compensated for by relative health in others. Recently, however, newspapers have been plagued by weakness in all three: local advertising has suffered because of bankruptcies of major department stores and smaller chains; classified advertising is down as real estate, automotive and help-wanted ads have declined; and national advertising, although only 10% of the total, has been pinched by cuts in spending by tobacco and automotive companies. Adding to the problem is declining circulation; readership has been dropping, particularly among baby boomers and women. We are projecting only modest revenue growth of 2% for 1990, with some upturn in 1991 and 1992.

We see **outdoor** growing by about 8% annually for the next several years. While the industry is facing ongoing cuts from tobacco and alcohol advertisers, recent attempts to attract new categories (packaged-goods, etc.) appears to be bearing some fruit.

Over the last several years, we have seen CPM increases come more into line with general inflation, and the next several years will continue that pattern. Network television, however, continues to be the wild card, with prime-time (and sports) efficiencies seemingly not subject to the same laws of supply and demand as the rest of the U.S. economy.

Overall uncertainty in the economy is combining with more specific problems impacting the media themselves. So as we face the new decade, we have to describe ourselves as simply "cautious." Good-bye, '80s; welcome to the '90s! ■

## YEARLY PERCENT INCREASES IN CPM

| | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990* | 1991* | 1992* |
|---|---|---|---|---|---|---|---|---|---|---|
| **Broadcast** | | | | | | | | | | |
| Prime Network (HH) | 2% | 20% | 5% | 4% | 11% | 3% | 8% | 12% | 9% | 9% |
| Day Network (HH) | 1 | 18 | 12 | -6 | 1 | -12 | 3 | 8 | 4 | 3 |
| Spot TV (HH) | 8 | 9 | 9 | 6 | 6 | 8 | 5 | 6 | 6 | 5 |
| Network Radio (A18+) | 11 | 9 | 8 | 9 | 6 | 4 | 6 | 4 | 3 | 4 |
| Spot Radio (A18+) | 8 | 7 | 8 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| **Print** | | | | | | | | | | |
| Magazines (Circ) | 6 | 7 | 8 | 6 | 6 | 6 | 6 | 5 | 6 | 6 |
| Newspapers (Circ) | 14 | 13 | 10 | 7 | 7 | 6 | 6 | 6 | 6 | 6 |
| **Outdoor (A18+)** | 8 | 9 | 8 | 6 | 5 | 5 | 5 | 5 | 5 | 5 |
| **CPI** | 3.2 | 4.3 | 3.6 | 1.9 | 4.4 | 4.4 | 4.8 | 4.8 | — | — |

*Sources:* *1982-1989*
*Network Television: Nielsen CPM Reports*
*All other media: SSA*

*1990-1992*
*All media: SSA*
** Estimates*

# NOW YOU SEE IT, NOW YOU DON'T

**The upfront flashed, but soon the smoke cleared and the marketplace cooled to more realistic levels. One surprise, though: daytime's strength.**

**by Joe Mandese**

Smoke, mirrors and a lot of sleight of hand. Whatever it takes, the broadcast networks once again managed to perform their annual magic in conjuring upfront demand — and respectable prices — for network tv time despite declining viewership. Like it or not, say buyers, the nets are still the only wizards in town capable of casting a big spell in the marketplace. And everyone wants to be first in line.

Once the pixie dust settles, though, reality should kick in. Continued uncertainty about the economy, further loss of ratings share and new policies for audience guarantees are taking the magic out of the overall network market. Fox has broadened the offerings, and syndication and cable, the nets' apprentices, should steal a bit of the thunder. All told, national broadcast should see rates grow in the mid single-digit range. Prime will average 10%-12% gains. Even daytime, which had seen only minor gains during past seasons, saw increases in the 10% range during the upfront.

In total, the four networks (including Fox) wrote between $4.3 and $4.4 billion in upfront prime-time sales, a modest increase over last year's $4-4.2 billion marketplace. And much of that growth came from Fox's expanded inventory (the network increased from eight to 12 hours of prime-time program sales), which tallied about $550 million in upfront sales, up from about $300 million the previous year.

NBC continued as the prime-time sales volume leader with about $1.5 billion (down from $1.65 billion last year), but ABC had the greatest growth, rising from $1.25 billion last year to about $1.4 billion this year. CBS, meanwhile, declined slightly from about $1 billion last year to about $900 million this year.

Upfront rate increases varied significantly by network and advertiser. In general, ABC led the three major networks with mid-double digit CPM increases, followed by NBC in the 10% range and CBS around 6%-7%. Fox garnered increases of nearly 20%.

The market exploded early with high double-digit rate increases paid by the automotive and movie categories, which are notorious for buying premium positions. But that isn't necessarily indicative of the strength of the overall market. "The movie companies and the cars create their own market," notes J. Walter Thompson senior vice president and director of network negotiating John Sisk. "They've got their specific targets and their nights of the week. The more restrictions you put on the buy, the more expensive it will be."

However, he notes that the more moderate demands of most network advertisers were met with more moderate rate increases. "I'm not saying that the networks rolled over and played dead, but neither did we. Nobody paid more than they were prepared to."

Most significant in moderating upfront prime-time costs this year was a drop-off in the leading category. Automotive spending declined from about $700 million last year to about $575 million this year. While the movie category was up substantially, slight increases in other major categories also helped fill the gap.

"While the automotives don't seem to be up in a major way from what was last year's boom, we are seeing packaged-goods money up, and we're starting to think that this may signal some disenchantment with short-term promotional spending and a return to media," observes CBS senior vice president of entertainment marketing and sales Jerry Dominus. "Compared to the current predictions for the economy by the business community, the network outlook is more positive and stronger in growth," adds ABC executive vice president of sales Jake Keever.

But others think that a fall-off in the lead network category may be a harbinger of things to come. The question remains of how strong the charm of network tv time really is. Although the upfront did its usual hocus-pocus, the reasons are less clear. Did people shift a greater share of their budgets upfront? If so, what will be the impact on scatter market demand? Will economic conditions bear out the upfront demand, or will a weak economy cause advertisers to exercise cancellation options and dump some of their upfront commitments on the scatter market?

"It was a strong upfront, but it's not necessarily strong for the entire year," says Lowe & Partners vice president of national broadcast Estie Todtman. "Last year had a strong upfront, but we had very soft second and third quarters. So, we might anticipate the same thing for next year." Todtman forecasts tight fourth- and first-quarter scatter markets, but some softness in the second- and third-quarters of 1991, "because everybody spent their money in the upfront. They went for protection."

Others agree that the true test of the 1991 television marketplace relies on how strong demand remains for scatter inventory. "While we are looking at substantial price increases for the 1990-91 season, I think there is reason to believe that the normal differential between upfront and scatter might not be as great," notes Foote, Cone & Belding executive vice president and corporate media director Joe Ostrow. While advertisers normally pay higher rates for network time bought in the scatter market, Ostrow believes it may "not be as high as it has been in the past. We're really looking at three markets: upfront, scatter and distress."

Distress would be an appropriate word if scatter prices fall near or below upfront rates. Indeed, beneficial pricing is one of the main reasons why advertisers buy network time upfront. And one of the other big reasons, audience guarantees, has been devalued this year by the networks' new policies. If advertisers believe they would do as well in the scatter marketplace, then they would lose some incentive to commit their budgets upfront.

But regardless of how the upfront/scatter dynamic plays out, the overall supply/demand ratio of network time defies logic for some observers. For several years now, advertisers have been paying significant increases to buy network tv shows that have been delivering smaller and smaller audiences. Some argue that this more-for-less scenario merely reflects pure marketplace conditions. As they explain it, network time is a commodity and advertisers aren't actually buying shows, but gross rating points (GRPs) that reach specific target audiences. And like any commodity, as the supply of network GRPs is diminished and advertiser demand remains constant, then prices should go up.

Indeed, that has been the case. But that scenario assumes that the actual supply of GRPs has been reduced. In fact, it has remained fairly constant. While the average network rating has dropped significantly during the last decade, the networks have offset that by expanding the number of commercial units. And ad units times rating points equal gross rating points.

While the average network rating for all dayparts dropped 20.1% between 1983 and 1989 (see chart), the supply of commercial advertising units rose 37.6% largely because of the influx of 15-second commercials. As a result, the supply of network GRPs rose 9.8% during the period. While use of :15s appears to have leveled off, the networks continue to expand their inventory by squeezing in brand new units.

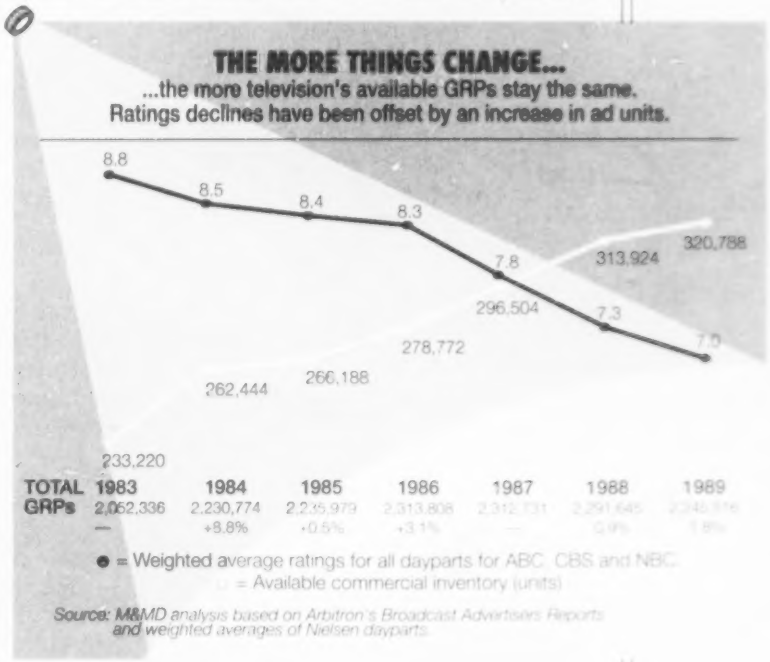
"The networks all added inventory in January," notes N W Ayer director of broadcast programing Aaron Cohen, estimating that the supply has increased by about 50 units a week. That's a considerable amount when you put dollars against it," he says. "Plus Fox is eating up more money with two additional nights of programing, and more money is being spent in syndication and cable. So you aggregate it, and you end up with a whole lot more inventory." (According to an estimate by *Broadcasting* magazine, the new units added this year by the three networks are equivalent to $150 million in network sales.)

With the supply of national tv GRPs rising so fast, one has to wonder how solid demand actually is, says Cohen, noting that only the scatter market will tell for sure.

## SYNDICATION AND UNWIRED NETWORKS

Due largely to the strength of the network upfront marketplace and the fact that they continued to offer conventional audience guarantees while the three networks modified theirs, major syndicators and unwired networks wrote record upfront business for the 1990-91 season. However, as Leo Burnett senior vice president and media director Dick Hobbs notes, the syndication market has "polarized" into two markets: the top-rated shows and all the rest. "As the market has polarized toward fewer top-rated programs, the pressure against those programs has been even greater than in past years," he explains.

As a result, those shows saw the heftiest rate gains and are said to be closing in on network CPMs. "The first tier has become highly competitive to network




*Source: M&MD analysis based on Arbitron's Broadcast Advertisers Reports and weighted averages of Nielsen dayparts.*

CPMs, but should stay below it," notes George Back, president of All American Television and the Advertiser Syndicated Television Association (ASTA). However, with that top tier representing about two-thirds of the syndicated shows, he estimates that overall prices will rise at near double-digit levels in 1991.

As for dollar volume, based on a solid upfront market, ASTA is projecting that the syndication market will yield about $1.4 billion, up from $1.25 billion last year.

Like syndication, the unwired networks benefited from the aggressive audience guarantee policies adopted by the Big Three. "We're seeing a lot more activity than we were a year ago," notes Frank Henderson, vice president of sales for the Independent Television Network, which represents half of the $100 million-plus unwired network business. He estimates that ITN's dollar volume will grow from about $50 million in 1990 to about $75 million in 1991 on CPM gains of 8-10%. "If we don't hit $60 million, I'll know that we screwed up," he says.

## SPOT

"From a cost standpoint, I'd say that spot was a bargain in 1971 and 1981, and it will be a bargain again in 1991," is how Blair Television senior vice president and director of regional sales Floyd Gelini characterizes the strength of the spot tv sales market in 1991.

Buyers agree. "There won't be any political dollars. There's no Olympics. And things are not so great. I look forward to it being a buyers' market," says McCann-Erickson senior vice president and general manager of local broadcast Laura Silton. Although some isolated markets may remain tight, Silton adds that "even L.A. has got to calm down sometime." Katz Television president Peter Goulazian agrees that there appears to be little that will stimulate the 1991 spot marketplace. Moreover, he notes that there will be "$200-250 milllion" in 1990 political advertising dollars that won't be there in 1991. "That's certainly a negative consideration."

On the bright side, he says there appears to be a resurgence of spot spending by packaged-goods advertisers who are "becoming more sensitive to regional or local-market situations." Moreover, he notes that inventory will be tightened considerably in markets bearing Fox stations, as the network expands its programing. "There will be less available time to sell and higher-rated programing to sell it against. And those two things will probably place upward pressure on pricing."

**On spot:**

**"I look forward to it being a buyer's market."**

**Laura Silton**
**Senior vice president, general manager, local broadcast, McCann-Erickson**

But Goulazian concedes that that is merely good news in a soft marketplace. "I'd love to say that advertisers and agencies should anticipate a 10%, 12%, or 15% increase, but I think more realistically we will see another year of modest increases, maybe in the area of 4%, 5%, or 6%. And that would vary by market."

Young & Rubicam senior vice president and associate director Marlene Chautin seconds that assessment. "I don't see anything out there that would push costs up significantly. The word I keep coming back to is 'flat,' " she says.

The few cost pressures that might influence the spot marketplace, she says, are likely only to impact markets that already are doing well. Citing, for example, the introduction of new auto brands that theoretically would benefit spot through more aggressive dealer spending, she notes that it would likely have limited geographic skews. "Take G.M.'s Saturn. They're going to have strengths regionally: East and West coasts. And East and West coasts can even be further defined to major markets." Other areas won't feel Saturn's impact. ■

### A SPOTTY PERFORMANCE

**Prime-time spot rates had an up-and-down growth pattern through the '80s.**

| | Households Per Rating Pt. | Cost Per HH Rating Pt. | Cost Per 1000HH | % Change |
|---|---|---|---|---|
| Nighttime (M-S): | | | | |
| 1982 | 703,092 | $6,235 | $8.87 | — |
| 1983 | 717,905 | 5,852 | 8.15 | -8.1% |
| 1984 | 722,326 | 6,788 | 9.40 | +15.3 |
| 1985 | 732,211 | 7,360 | 10.01 | +6.5 |
| 1986 | 739,414 | 7,075 | 9.57 | -4.4 |
| 1987 | 752,863 | 7,635 | 10.01 | +4.4 |
| 1988 | 762,958 | 8,832 | 11.58 | +15.7 |
| 1989 | 774,048 | 8,535 | 11.03 | -4.7 |
| 1990 | 790,405 | 9,136 | 11.56 | +4.6 |

Sources: Television Advertising Bureau from *Media Market Guide*, 1st Quarter each year (costs); A.C. Nielsen, NSI (households)

# RIGHT PLACE, RIGHT TIME

**able seemed to be cooling down — until**
**e broadcast networks lit a fire under it.**
**Now some rate hikes could top 20%.**

**by Greg Clarkin**

Cable advertising growth is seeing unprecedented gains, and the last thing the Big Three want to do is fan the fire. Now it appears they've done just that. While broadcast execs were digging in on audience guarantee systems, advertisers and cable executives were inking deals that pushed cable's upfront up more than 50% to $750 million. With that vote of confidence, some cable execs are bullishly asking for increases in the high teens and early twenties. So much for cable's cooling growth.

"The recent hoopla over the guarantees and the ratings has forced a lot of advertisers to say 'I'm going to be on the networks anyway, but I'll make token appearances in places I maybe wasn't going to be in,' " says George Hayes, senior vice president and director of media planning at McCann-Erickson Worldwide. Those "places" include cable networks, Fox or syndicated shows not originally on the A-lists.

Hayes and others confirm broadcast is losing dollars to the alternatives as a result of the networks hard line on audience guarantees. By changing the rules of the game, efficiency was affected, and everyone rethought their options. "As long as we're going to start dealing with a situation where we're not going to get guarantees like we used to, why not put some more money into cable?" asks Hayes.

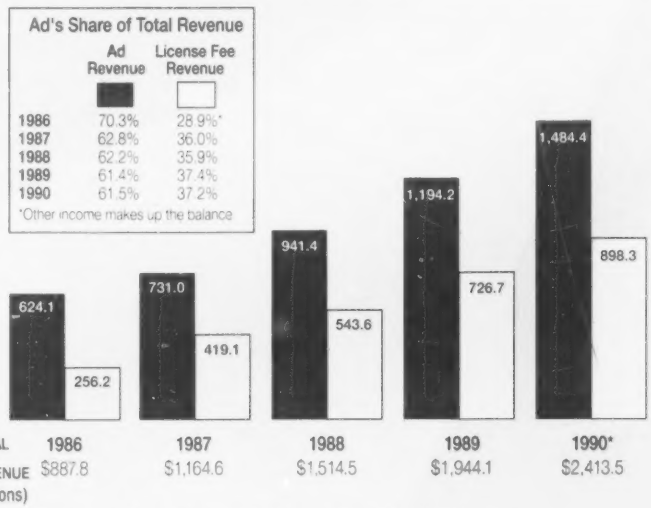
Robert Coen, senior vice president and director of forecasting at McCann-Erickson, says advertisers were figuring that they could pick up cable buys to round out plans if the network audience guarantees didn't measure up. "I'm sure the mindset was that if worse comes to worse, we can fill in some of the audience gaps with cable programing," he says. Still, Coen's *Insiders Report* predicts a leveling off of cable ad growth later in the year, after a 27% gain in 1989. Coen feels that rate of growth is simply "not sustainable."

According to Arbitron's Broadcast Advertisers Reports (BAR), Time Warner was the leading advertiser on cable in the first quarter 1990, with $14.7 million ad expenditures, followed by Procter & Gamble with $11.8 million, a 48% increase over 1989, and General Mills with $7.3 million, a 44% increase over last year.

Other top players in cable's first quarter were: Philip Morris with $6.7 million, up 29% from $5.2 million for the first quarter 1988; Kohlberg Kravis Roberts & Co. (RJR) at $6.5 million for the first quarter, up 22% from

## DOUBLE THEIR PLEASURE

Cable's dual-income structure now relies just a little less on advertising.




Source: *Projections. Based on estimates by Paul Kagan Associates.

$5.3 million first quarter 1988; and Anheuser-Busch with just over $6 million for the first quarter, up 23% from the $4.9 million of a year earlier. One of the largest increases came from number eight Sears Roebuck, with just over $4 million, up 44% from $2.8 million in 1989.

Only one top-ranked company cut its cable advertising from the first quarter 1989 to the first quarter 1990. Mars, Inc. registered $3.3 million in first quarter 1990, down 26% from the $4.5 million of 1989.

BAR reports that total advertising on Family Channel, Cable News Network, ESPN, MTV, TBS Superstation and the USA Network was $255 million for the first quarter 1990 versus $216 million for the first quarter 1989, an 18% increase.

The Cable Advertising Bureau (CAB) is predicting a cable upfront in the $750 to $800 million range, a big jump from last year's $500 million, with packaged goods and, yes, autos goosing it along. Judging by those cutting the deals, that figure may prove accurate. All the networks interviewed claimed substantially higher upfront business, with many reporting long-term commitments, and buyers back them up.

David Drake, senior vice president and associate director of DDB Needham's media department in Chicago, says he's seen cable deals going down much earlier than in the past. "Brands are including a lot more cable in their plans," he says.

Drake says the multi-year deals began to take off during last year's market and continued into this season. "I think the demand became formalized with last year's marketplace. There were a lot of clients stepping up to the plate to make long-term deals," he says.

Some of those include the otherwise-coasting automakers, says Doug McCormick, senior vice president of sales at Lifetime. Both Lifetime and Arts & Entertainment report substantially higher business from Detroit this year. "Somebody figured out when they were stopped at a red light and they looked to the right and the left that it wasn't just men driving those cars," McCormick says in reference to Lifetime's female audience. Lifetime also reports strong response from the fast food-industry.

Advertisers are drawn to cable's ability to provide segmented, targeted audiences. "Cable still segments markets better, and we get the most return on our investment by targeting areas," says Mark Dunn, national advertising and incentives manager at Subaru of America.

Considering cable's vigor, observers are predicting CPM increases could reach 20% for some offerings, with a few topping that next year. That's the asking price, of course, and only high-demand programing is likely to come close to it. It should also be noted that cable's base is still fairly low — average prime-time CPM is $10. But Aaron Cohen, senior vice president, director of national broadcast programing at N W Ayer, admits he expects to see 1991 CPM hikes of anywhere from 5% to as high as 20%, depending on the network and shows involved.

The Family Channel represents the medium's bullish pricing spectrum. Dick Hammer, vice president of advertising sales at the Family Channel, says he expects CPM increases for 1991 to register in the 15% to 20% range at the network, with the original productions receiving slightly higher hikes. Household CPM now goes in the range of $3 to $3.75 for prime-time programing and $4.25 to $4.50 for original programing.

"It's been a very strong, bullish market this year, much stronger than the past two years," notes Hammer. "We're seeing many advertisers seeking three- to six-year deals."

While he hasn't finalized many deals just yet, Hammer has more than 30 "major proposals" pending, all ranging from 40-week commitments to multi-year deals. Among the companies showing "dramatic" increases in their budgets to the Family Channel are General Mills, the Clorox Company and Sears Roebuck, he says.

John Silvestri, senior vice president of advertising sales at the USA Network, says his network has been cutting more 52-week deals than ever before and estimates that there will be about 20% more ad revenues in cable this year. Silvestri says much of the growth at USA is from packaged-goods and the movie industry, which is pumping "more money than ever before" into tv in general. Asking rates at USA for 1991 will increase in the 15% to 20% range, he adds.

Lifetime's McCormick also says that networks will be looking for 15% to 20% increases next year, with some deals possibly going for more than 20%. Those higher priced deals may include long-term agreements that expire after this year.

McCormick says Lifetime has already written close to 40% more business this year than it had at this point last year. He attributes it to the time buyers had while the networks settled their problems. "I would say that while some people were waiting for the log jam to break, they busied themselves," McCormick says.

Another cable network getting a boost this upfront is the Arts & Entertainment network. Ron Schneier, vice president of advertising sales at A&E, reported early in the buying season that his network was "already beyond what our total upfront was last year."

A&E committed about 20% of its inventory to the upfront last year, while this year's figure will surpass

**"As long as we're not going to get [broadcast] guarantees like we used to, why not put more money in cable?"**

**George Hayes**
**Senior vice president, director of media planning, McCann-Erickson Worldwide**

45%, according to Schneier. Fueling this growth is the auto and packaged-goods categories. Certain packaged-goods companies have doubled their budgets to A&E over last year's, he says.

A&E also benefited from the recent cable Nielsen Audience Demographics (CNAD) report. CNAD ranked A&E number one in concentration of adults 25 to 54 with household incomes of more than $40,000, $50,000 and $60,000.

The study's findings were released at about the same time A&E was preparing its upfront presentations, giving the network added punch, Schneier says. A&E will probably ask for increases in the 12% to 15% range, he adds.

While all this may look like wishful thinking on the part of the networks, buyers confirm that cable is, indeed, hot. Stacey Lippman, senior vice president and corporate media director at Chiat/Day/Mojo, has seen many of their clients commit "meaningful" budgets towards cable at an earlier date this year.

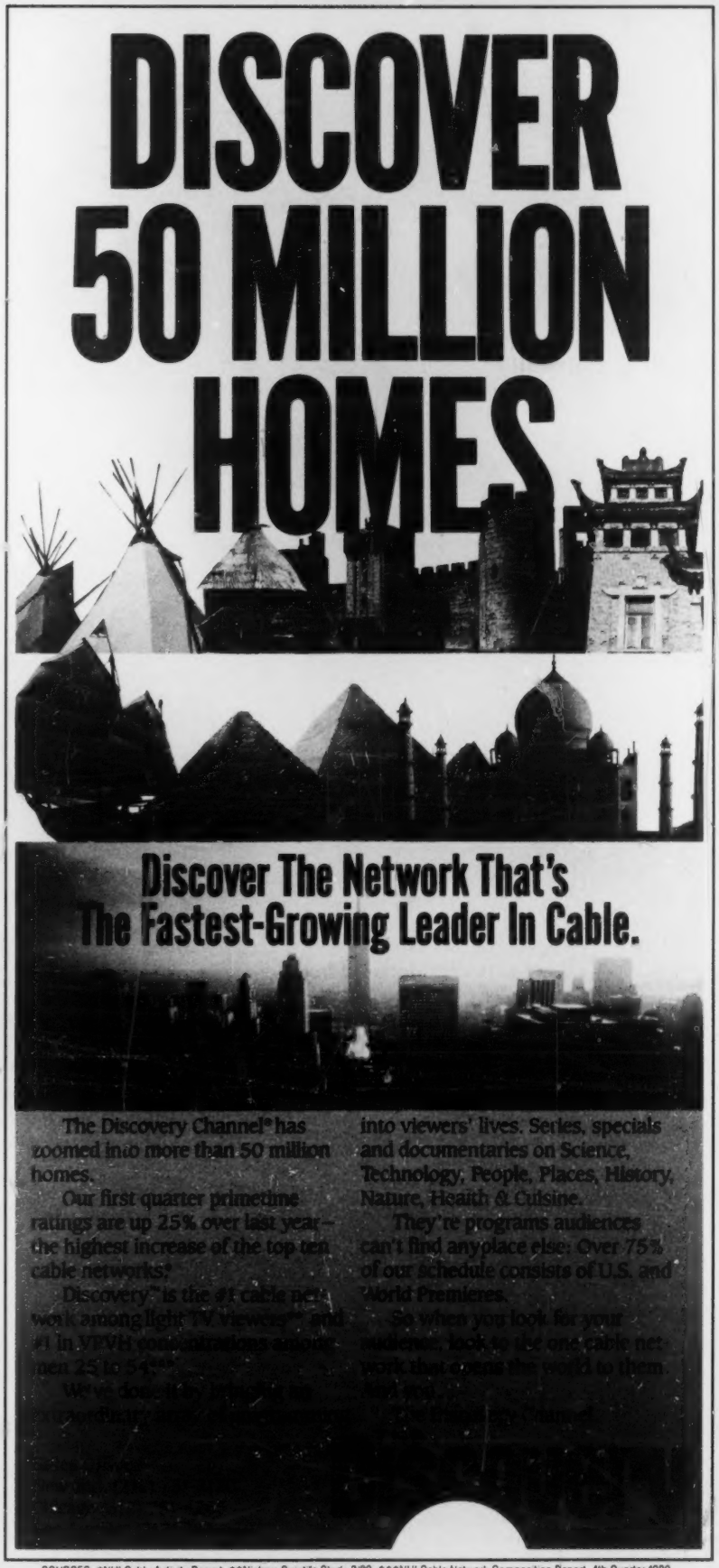
"We have bought cable considerably in advance of the network upfront," he says. For one thing, the networks' investments in upgrading their programing appears to be paying off. "The programing is vastly improved. It's no longer an add-on buy," Lippman says.

At Advanswers, a media buying and planning concern, reports are that cable clients are throwing more money at the medium. "Every one of our clients has increased its budget, and we've had some who have doubled their budgets over those of last year," reports Kathleen Lawson, senior vice president and executive director of broadcast.

Lawson reiterates the basic buyers maxim concerning cable's appeal: more attractive targeting and improved quality in its programing, at a time when the networks are scrambling to hold market share. "Cable has been getting more numbers all the time, and the broadcast networks are getting weaker," she says.

According to the CAB, the average combined prime-time rating for the three networks in May 1988 was 39.4. By May 1990, that figure was down to 34.8 at the same time, cable's average rating rose from 7.6 to 10.4.

Such growth will only go so far, however. Cable's rising rates are not matched with any real growth in penetration — it still only reaches 57% of the country. But as cable executives gleefully reap the fallout from broadcast's disaffected customers, the medium is once again demonstrating that it's not always bad to be a second choice. ■



DISCOVER
50 MILLION
HOMES
Discover The Network That's
The Fastest-Growing Leader In Cable.
The Discovery Channel® has zoomed into more than 50 million homes.
Our first quarter primetime ratings are up 25% over last year – the highest increase of the top ten cable networks.*
Discovery™ is the #1 cable network among light TV viewers** and #1 in VIEWS concentrations among men 25 to 54.***
into viewers' lives. Series, specials and documentaries on Science, Technology, People, Places, History, Nature, Health & Cuisine.
They're programs audiences can't find anyplace else: Over 75% of our schedule consists of U.S. and World Premieres.
So when you look for your audience, look to the one cable network that opens the world to them.
SOURCES: *NHI Cable Activity Report; **Nielsen Quintile Study 2/89; ***NHI Cable Network Composition Report, 4th Quarter 1989

# SLOW DANCING

**The go-go '80s have given way to a slower tempo as advertising dollars take a dip. No wonder radio is so into nostalgia.**

**by Greg Clarkin**

Just last year, many in the industry were heralding the "New Golden Age of Radio." Now their tarnished hopes have led to a reassessment of the medium's long-term outlook.

After flourishing between 1985-89, when revenues went from $6.5 to $8.4 billion, growth suddenly slowed in the first half of 1990. Network radio sales were up only 3.9% to $94.1 million in the first quarter, according to the Radio Network Association (RNA), compared with a 12% gain in 1989. And solid gains in major markets such as New York (+6.1%) and Chicago (+16.6%) are being offset by substantial losses in other major markets, such as Los Angeles, off 18.1%.

George Hyde, executive vice president with the Radio Advertising Bureau (RAB), now anticipates a 5.5% increase in total radio revenues for 1990, with network growing 5.6% and spot and local each growing 5.2%. And some say that may be putting too much of a shine on it. Les Goldberg, president of Interep, has scaled back his early year predictions of 5% growth to 2%-3% growth this year.

While regionalization of marketing efforts and a new accent on value-added augured well for the radio medium in better times, new realities keep pushing it to the back of planners' minds. "We still are unfortunately viewed as a secondary medium," says Goldberg. Nor does he see any improvement soon. The days of double-digit growth "are gone forever," he adds, unless radio gets more aggressive about marketing itself.

The most caustic element in radio's performance is the overall advertising environment. "The economy is still sputtering," points out Ken Costa, vice president of marketing information at the RAB. "Some industries are having problems, which makes us all scramble for a buck." When marketers scrutinize budgets, that's when radio's image as a secondary buy takes its toll. "Usually they see what they have left over, then start to deal with radio," Costa says.

Mike Nicassio, executive vice president of sales at Eastman Radio, says among the categories fueling radio advertising this year are soft drinks, gasoline and oil and beer and wine. Categories experiencing a decline include automobiles and airlines.

Performances in different segments of the industry are mixed. Bennett Zier, vice president and director of sales at CBS Radio Representatives, says his group is coming off three strong years and has seen double-digit growth during the first quarter of 1990. At the same time, spot growth is sluggish, Zier admits. "Whether or not the economy is bad, there's a perception that it is. People do feel poorer than they did two years ago," he says.

Still, he believes the second half of 1990 should prove stronger than the first, based on the feeling that 1990 is a transition year into a new decade. He believes consumers and businesses will become more settled by the middle of the year. "I think business will climb gradually," Zier says.

But Pete Harrington, network radio manager at BBDO, says radio advertising in 1990 may be hurt by the big increases in television advertising. As advertisers are forced to pay more for television, radio is a likely source of dollars to make up for the jumps, he says. Overall, he'll be surprised to see any changes in pricing. "I can't see anything major driving up radio prices," he says.

Costa at the RAB admits even minimal rate hikes may hurt some radio advertisers, and trying to pin down rate increases is difficult. "It's like trying to say what airline rates will be like next year," he says. Dick Silipigni, vice president of sales at CBS Radio Networks, hazards a guess that increases for network radio time will be in the 3% to 5% range. "I don't think anybody will be increasing [rates] drastically," he adds.

At the network level, consolidation is one byproduct of the softer outlook. ABC Radio Networks recently crunched seven networks into five in an effort to better compete with the cable networks and the demos they deliver. Sales in network radio are up about 4%, according to Lou Severine, senior vice president and director of sales at the ABC Radio Networks. That sluggish growth has encouraged his network, along with CBS Radio Networks and Westwood One, to retool their network configurations in an effort to attract new business.

"Cable tv has slowed our growth, and it only reaches

57% of the country. This is a plan of attack to get new business," Severine says. Consolidation gives the networks "the opportunity to start fighting for some of the television money" by offering concentrations of attractive demographics, like the many cable networks do, Silipigni at CBS says.

Spot sales, meanwhile, are fading. Bob McCurdy, vice president, general sales manager at Katz Radio, says spot sales have been up about 4% for the first quarter 1990, but growth for the year will be modest. "We're not bracing for a real big year this year," he says. Overall, spot growth will probably be around 3% this year, with increases for next year about the same.

Food is spot radio's largest category, spending more than $346 million in the first quarter, according to Radio Expenditures Reports. Following that is automobiles with $253 million in ad spending for the same period; travel/shipping with $159 million; consumer/financial services with $114 million; and beer, ale and wines with $139 million.

Local sales have been slow as well. Joan Knox, vice president and media director at Gray, Kirk & Evans in Baltimore, agrees that there "are less dollars in the marketplace generally." She notes that local radio advertisers "tend to use radio as a quick fix and not pump a lot of money into it." Still, local is where she sees a glimmer of hope for the approximately 5,000 AM and 5,600 FM radio stations. She estimates that local costs will probably rise from 7% to 10% in 1991.

Dennis McGuire, vice president and associate director of local broadcast at Ayer/New York, disagrees. He believes local costs will only rise in the 3% to 5% range in the new year. He also sees tv's expense as a boon for its broadcast brethren — he thinks some dollars may be shifted from television to radio as advertisers discover what a steady-performing medium radio is.

"We're finding that radio has embraced the idea of bringing extra-value to advertisers, doing promotions and remote broadcasts for clients," adds radio fan Mike Walsh, senior vice president and media director for Ketchum Advertising/Pittsburgh. He believes that attention to clients has led many advertisers to see the value of the medium locally.

But he cautions against the conservatism that has too many stations taking up similar formats. "It seems that some radio stations are blurring their position in the marketplace. If it comes to the point where many stations sound the same, it won't bode well for radio. It'll breed a lot of station switching," Walsh says.

So what's hot these days? Yesterday. "The oldies format has grown more than any other during the last five years," says Ray Hockstein, a member of the research department at Interep Radio Store. Hockstein says that format can cover anything from tunes from the late '50s to songs from the mid '80s. According to Interep, the "oldies" format grew from 2.9% of station formats in 1985 to 7.7% in 1989, a 166% increase. New age/jazz, was second, growing 140% during that time period, from 0.5% in 1985 to 1.2% in 1989.

While the "oldies" format is gaining in popularity, the "beautiful music" format that features mainly instrumentals is finding its popularity waning. "We've seen a great change in the easy listening format. The traditional easy listening has been modified to reach a younger demographic by adding more vocals," says Nicassio at Eastman Radio.

The most sought after daypart remains morning drive. That's followed closely by afternoon drive and midday 10 A.M. to 3 P.M., depending on the market. The third most demanded daypart is Saturday from 10 A.M. to 3 P.M.

Some of the most significant growth in radio has come in the weekday-midday time period. And the bulk of that growth has been out-of-home area, says Maggie Hauck, vice president of marketing and research at Christal Radio. In some markets, weekday-midday has even unseated the drive-time in demand.

Hauck says that move has been fueled by the increasing number of women in the workplace, as well as the fact that listening to the radio at work has become more accepted. Midday has also become popular as more of the workforce takes to working untraditional hours. "The world isn't always on a nine-to-five schedule," Hauck says. As listening habits change, some buyers might be left dancing in the dark. But ultimately, more listeners in more dayparts should mean more efficiency for the medium. ■

## AROUND THE DIAL, ACROSS THE COUNTRY

Three major markets offer a wide CPM spread for radio.

| Daypart | Avg. CPM | High | Low |
|---|---|---|---|
| **New York** | | | |
| M-F 6-10 AM & 3-7 PM | $4.18 | WHTZ-fm-$7.11 - (CHR) | WPAT-fm-$1.34- (Beautiful music) |
| M-F 10 AM-3 PM | $4.29 | WXRK-fm-$10.03 (Classic Rock) | WPAT-fm-$1.10- (Beautiful music) |
| M-F 7 PM-Mid. | $6.11 | WXRK-fm-$21.13 (Classic Rock) | WINS-$1.48-(All news) |
| Sat. 10 AM-3 PM | $4.38 | WXRK-fm-$9.62 (Classic Rock) | WPAT-fm-$0.91- (Beautiful music) |
| **Los Angeles** | | | |
| M-F 6-10 AM $ 3-7 PM | $6.95 | KPWR-fm-$22.08 - (CHR) | KWKW-fm-$1.02- (Spanish) |
| M-F 10 AM-3 PM | $6.76 | KPWR-fm-$21.41 - (CHR) | KTNQ-fm-$0.92- (Spanish) |
| M-F 7 PM-Mid | $11.65 | KQLZ-fm-$39.47 - (Contemp. Rock) | KWKW-fm-$2.42- (Spanish) |
| Sat. 10 AM-3 PM | $6.97 | KIIS am + -fm-$19.48 - (CHR) | KWKW-fm-$0.84- (Spanish) |
| **Chicago** | | | |
| M-F 6-10 AM $ 3-7 PM | $6.54 | WLUP-fm-$12.65 - (Adult Rock) | WGN-fm-$2.52- (MOR/Sports) |
| M-F 10 AM-3 PM | $5.12 | WGCI-fm-$9.98 - (Urban Contemp.) | WGN-fm-$2.31- (MOR/Sports) |
| M-F 7 PM-Mid | $8.32 | WTMX-fm-$26.52 - (Contemp. Rock) | WGN-fm-$2.33- (MOR/Sports) |
| Sat. 10 AM-3 PM | $5.48 | WGN-fm-$14.20 - (MOR/Sports) | WBBN-fm-$1.71- (All News) |

*Source: Interep Radio Store. CHR = Contemporary Hit Radio, MOR = Middle of the Road.*

# AS THE PAGES TURN

As major consumer magazine publishers look ahead to 1991, a few are just hoping there will *be* a 1991. After a miserable first five months that saw automotive and cigarette advertising plummet 14% and 28% and overall pages fall by 3.2%, a lot of publishers can only see as far as the third quarter.

**Advertisers are in no mood to hear publishers' tales of woe, and the publishers know it. Still, who else can they cry to?**

**By Michael Garry**

"There's quite a bit of breath-holding going on," says Ivan Inerfeld, a partner in Coopers & Lybrand, an accounting firm with numerous magazine clients. Some publishers hope the introduction of '91 model-year cars will stoke the advertising machine in the second half. But prognosticator Robert Coen of McCann-Erickson gloomily predicts that the rest of 1990 won't be much better than the first half.

While paper and printing costs are expected to hold tight, those publishers who do make it to 1991 will be greeted with a whopping 23% average increase in second-class postal rates and a 17% average rise in third-class rates. Moreover, the chunky upfront commitments to the networks will leave even fewer dollars in the advertising pool in 1991 for print.

These conditions are leading many to predict cost-of-living rate increases of around 6%, though in hard-hit fields such as the women's service books and the newsweeklies, the increases could be zero to 3%. It's enough to make publishers want to pack up and head for the beach.

"It will be a struggle for magazines to maintain share next year," says Lou Schultz, director of media services, Lintas:USA. "They're going to have to work even more closely with advertisers to maintain what they've got."

Schultz, who has General Motors' magazine-heavy Chevrolet business, does not believe advertising will pick up for magazines in 1991. "Advertisers' moods are real surly now and will get worse," he says. "What's going on in network tv is making them angry at *all* the media suppliers and more intractable in their attitude."

Publishers can take some comfort in the fact that their pained cries that discounting is killing them have begun to be heard by the buying world. They might even be able to keep a lid on their increases long term if, as some buyers now say, the practice of strong-arming discounts off the card is indeed played out.

Paul DuCharme, vice president, director of print me-

**THE CAST OF CHARACTERS**

Basic Data for Consumer Magazines Selected Years — 1970-1989

| | 1989 | 1988 | 1987 | 1986 | 1985 | 1960 | 1970 |
|---|---|---|---|---|---|---|---|
| Number, including farm publications | 2,188 | 2,089 | 1,880 | 1,793 | 1,805 | 1,458 | 1,187 |
| Advertising in major magazines | | | | | | | |
| Pages (per year) | 177,000 | 166,700 | 155,600 | 152,600 | 152,600 | 114,700 | 76,900 |
| Dollars (millions per year) | $6,642 | $5,940 | $5,390 | $5,120 | $4,920 | $2,846 | $1,169 |
| Circulation per issue | | | | | | | |
| ABC audited magazines (millions) | | | | | | | |
| Single copy | 80 | 80 | 80 | 78 | 81 | 91 | 70 |
| Subscription | 288 | 272 | 260 | 251 | 243 | 174 | 173 |
| Total | 368 | 352 | 340 | 329 | 324 | 265 | 243 |

*Sources: James B. Kobak & Company*

dia, Grey Advertising, is one who agrees that rate discounting has reached its limit. On the other hand, he says, it's hard to now roll back an earlier 30% discount to 20% or less.

So, for the short term, says DuCharme, ad rates could be inflated higher than expected just to make up for earlier discounts, and he envisions asked-for increases of between 8% and 11%. Steve Kline, media director for Kirshenbaum & Bond, agrees that publishers will try and make up for prior discounting. "But I knock the padding right out," he says. "Very few magazines are speaking from a strong position." He predicts 5% to 7% rate increases.

Roberta Garfinkle, vice president/director of print media, McCann-Erickson, who sees rate increases of between 6% and 8%, scoffs at the idea that rate negotiating will level off. "Magazines give good lip service to the idea that rate negotiations are a bad thing," she says. "Yet nobody, except Condé Nast, will say no to us."

For their part, publishers match buyers' predictions with planned ad rate increases ranging from 6% to 8%. More publishers also will be giving themselves de facto rate hikes by doing away with the 2% client discount for paying within ten days. "Most of the women's service books don't pay it," says a source. "It will be gone and make life simpler all around."

Times-Mirror executive vice president James Kopper tentatively projects ad-rate increases (assuming a steady rate base) for his company's nine magazines to be between 6.5% and 8.5%. That's more than the 6% rates were raised this year, but as Kopper says, reflecting the angst of many a publishing executive, "What we have now is a much higher cost of doing business."

Kopper's overall survival strategy is to distribute the cost burden between readers and advertisers and tighten operating efficiencies. At press time, he still hadn't firmed up any newsstand or subscription price increases for next year, but they are expected.

The bottom line? "Our profits will be in the single digits," says Kopper, "unless we have a circulation increase, which could take us into double-digits." Overall profit margins in the magazine business, estimated by the Magazine Publishers of America to be around 12% last year, are expected to drop a few percentage points in 1990.

Kopper will be scouring his publishing operation for ways to make it more efficient. Tactics range from an independent, systematic review of the company by accounting firm Coopers and Lybrand to printing rate cards all at the same time to get better pricing. "You wind up saving a lot of money that way," he says.

Still, Kopper is moving slowly — not touched, for example, are travel and entertainment budgets. "You can't tamper with the opportunity for your sales organization to communicate with clients," he says.

Publishers such as Kopper are also looking for any other source of revenue they can get their hands on. Times-Mirror's *Popular Science* magazine, for example, holds an annual advertiser event called "The Best of What's New" at the plush Manhattan restaurant Tavern on the Green; next year, Kopper might open it up to the public and charge admission.

At *TV Guide*, where ad pages fell 12% in the first half, ad director Mary Berner will be raising ad rates 6% to 7% in January; rate base, she adds, will fall a little. The rate card will also include revised frequency levels and discounts.

*Reader's Digest* publisher John Donoghue expects to raise the *Digest*'s rates between 6% and 9% next year. "To stay solvent we have to be more aggressive with rate increases than we have in the past," says Donoghue. "And they have to be real rate increases, which won't be discounted away." In July, the *Digest* raised its subscription prices 6% and its newsstand price from $1.89 to $1.95.

Like most ad directors, Donoghue emphasizes there's more to life — and magazines — than just price. In the *Digest*'s case, he likes to point out its renewal rate of 68%, a tactic that especially stands out because most magazines are reluctant to reveal their renewal rates — the Audit Bureau does not require them to do so.

*Better Homes and Gardens*, which raises its rates in September rather than January, plans a 6.3% hike this year, a drop from last year's 7.73% increase. In November, newsstand price goes to $1.75 from $1.50; last February subscription prices rose 7%. Part of these increase will go toward

**THE RATE RACE**

Consumer magazine rates outran the CPI in the 1980s, after lagging in the 70s.

| | Unit Rates | Cost-per Thousand | Consumer Price Index |
|---|---|---|---|
| 1970 | 100 | 100 | 100 |
| 1980 | 156 | 162 | 212 |
| 1981 | 173 | 181 | 234 |
| 1982 | 189 | 201 | 249 |
| 1983 | 202 | 217 | 258 |
| 1984 | 216 | 235 | 269 |
| 1985 | 238 | 239 | 279 |
| 1986 | 260 | 260 | 284 |
| 1987 | 280 | 278 | 298 |
| 1988 | 284 | 281 | 310 |
| 1989 | 293 | 289 | 325 |
| 1990 (est) | 316 | 312 | 338 |
| 1970-80 increase | 56% | 62% | 112% |
| 1980-90 increase | 103 | 93 | 59 |

Sources: James B. Kobak & Company

paying for a counter-industry shift in the ad/edit ratio from 42% edit to 46%.

*BH&G* publisher Jerry Kaplan has faith in the power of added-value programs to keep publishers afloat. "Everything's competitive, yet there's money out there," he says. "You've just got to be client-driven." *BH&G*'s programs encompass everything from vitamin manufacturers donating vitamins to homeless families to sweepstakes, advertorials, couponing and in-store displays done on behalf of several major drug-store chains. Some of the magazine's programs are designed in conjunction with sister title *Ladies' Home Journal*.

**DUTCH TREAT**

Revenue shares show readers and advertisers now split the bill for magazines.

| | Advertising | Subscriptions | Single Copy |
|---|---|---|---|
| 1970 | 64.33% | 27.91% | 7.76% |
| 1980 | 51.14 | 32.67 | 16.19 |
| 1981 | 51.08 | 33.30 | 15.62 |
| 1982 | 50.19 | 33.32 | 16.49 |
| 1983 | 49.87 | 33.70 | 16.43 |
| 1984 | 51.91 | 32.97 | 15.12 |
| 1985 | 49.70 | 33.29 | 17.01 |
| 1986 | 50.40 | 33.60 | 16.00 |
| 1987 | 50.08 | 33.60 | 16.32 |
| 1988 | 48.42 | 37.03 | 14.55 |
| 1989 | 49.31 | 36.13 | 14.56 |

Sources: James B. Kobak & Company

Regional economies are affecting some titles more than others. Two-year-old *Midwest Living*, another Meredith title, has been raising its rates commensurate with its rate base jumps — 20% this year, and 20% next, when the rate base will hit 700,000. "The problems in the magazine business have been affecting mature properties," says Lyle Landon, ad director. "Our universe, the Midwest, is growing, so we continue to win."

As a single-title publication, *Newsweek*, under new publisher Peter Eldredge, is in an especially vulnerable position in today's market. So Eldredge has aggressively pursued linkages with its sister publication, *The Washington Post*, and with other media companies, such as ABC Radio Network. "These are for selected categories and accounts," says Eldredge. "It's not inculcated in our sales strategy."

*Newsweek* has also begun discussions with advertisers regarding its new selective binding program, called AIM. Similar to rival Time-Warner's TargetSelect Program, AIM allows advertisers to target, for example, recent movers among *Newsweek*'s subscribers.

*Newsweek* thankfully has the powerful Washington Post Co. on its side. Smaller companies may not be able to fight the fight as effectively.

"In the next year or two, I see the demise of the small publishing company," observes McCann-Erickson's Garfinkle. Already small companies like Family Media and Owen Lipstein's New American Magazine Company are struggling. "There will be more and more pressure for givebacks, and it will be harder to do business unless you're a Hearst or a Condé Nast," she says.

As hard pressed as publishers may feel about postal costs going up, they don't get a lot of sympathy from advertisers. "Everybody's costs are up — for sheet metal, wrapping paper, biodegradable plastics — you name it," says Lou Schultz, Or, as Chuck Lanphear, media director for H.J. Heinz, puts it, "Publishers are going to have a hard time raising prices as much as they'd like to cover overhead." He foresees 5% to 8% increases.

The good news on the postal front is that publishers are planning for the postal rate hike more strategically than they have in the past, observes Paul DuCharme. "We used to see reaction only; this is proactive," he says of the industry's efforts.

For example, publishers are lessening the bite of the postal hike by using lighter weight paper, pooling mail shipments of several magazines and drop-shipping magazines at numerous entry points, notes postal consultant Charles Pace.

They are also asking the reader to help pay for the higher cost of doing business through single-copy or subscription increases instead of immediately going to the advertiser. "To be successful in this ad climate, books need a double revenue stream. They have to be accepted by both advertisers and readers," says DuCharme. This extra option, he adds, gives magazines an advantage over the networks, whose rates must escalate at a higher rate.

Higher circulation prices generally lead, of course, to a drop in circulation rate bases. One sign of this: Over the past five years, the percentage of publishers saying that they have raised their rate base declined from 42% in 1986 to 15% this year, according to a survey conducted by circulation guru Dan Capell.

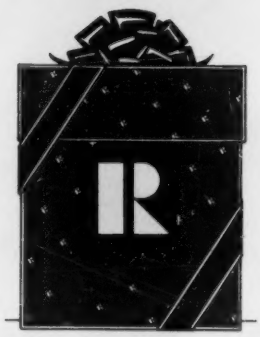
Rate bases are also being pruned as a result of publishers' new mean-and-lean attitude towards their circulations. Notes DuCharme, "Publishers are starting to minimize arrears, cut back on huge bonus circulations and generally look at delivering circulation that satisfies advertisers' goals."

But don't expect ad rates to decline along with circulation, as you would normally expect them to, says DuCharme. Cost pressure on publishers may keep those ad rates up, and by paying the same or higher rates for less circulation, advertisers will be, in effect, coughing up higher cost-per-thousand rates next year.

This scenario applies, for example, to what *Time* mag-

WHY SETTLE FOR SMALL BUSINESS MARKETS

WHEN ONE PACKAGE DELIVERS 800,000 BUYERS.



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800,000 REALTORS®. 120,000 broker offices. A big market of big buyers. In the next 12 months, REALTORS® plan to buy 71,200 computers. 52,800 cellular phones. 40,000 photocopiers. And much, much more.

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azine has done in recent years. By cutting the rate base from 4.3 million to 4.0 million, and holding ad rates constant, CPM went up 7.5%.

But the drop in circulation in one category will be offset by a rise in circ in a different category, says DuCharme. "I suspect overall readership is as vital as ever," he notes. While circulation declines for the newsweeklies and women's service books, for example, it's gaining at the business and shelter titles.

Another major outgrowth of the postal hike is that alternate delivery ventures such as Time-Warner's Publisher's Express and Michigan-based Alternate Postal Delivery, Inc. (formerly United Delivery Systems) are being given a boost.

These companies are important to advertisers in that they help keep publishers' costs, and therefore rates, under control. Alternate delivery can also serve as a marketing device for advertisers and publishers. Unlike the postal service, companies such as APD can include product samples, brochures, flyers or renewal notices in the plastic bag containing the magazine.

Lipton Soup, for example, could include a packet of soup in the bag, along with a print ad in the magazine. Phil Miller, president of APD, says the space inside the magazine bag could become as filled with samples as Sunday newspapers are with inserts. APD has started a sampling and couponing program with *Better Homes and Gardens*, of which it delivers 200,000 copies per month.

A number of publishing companies, including American Express Publishing, Times-Mirror, Murdoch, Meredith and *U.S. News & World Report* have joined up with Publisher's Express. Publisher's Express privately delivers 85,000 copies per month for 17 titles in five Atlanta-area zip codes. By next year, the service hopes to deliver 350,000 copies per month in eight Atlanta ZIP codes — and possibly other cities, says Howard Rosen, president of Publisher's Express.

Meanwhile, Miller claims that, following next year's postal hikes, his company will be 15% less expensive to publishers than the postal service. He has recently signed up a slew of publishers to two-to-four-year contracts, including *Playboy*, *Mirabella*, *Premiere*, *Harper's Bazaar* and *Esquire*. Currently delivering 1 million copies in 14 markets in the Midwest, APD plans to add four more markets in the second half of the year on the west and east coasts, and to be in 95 affiliated markets within five years, says Miller. He now delivers at most 2.5% of any magazine's copies, but wants to be up to 48% in five years.

At presstime, APD and Publisher's Express were discussing ways to standardize alternate delivery. There was even some speculation that the two companies might ultimately merge.

**"Magazines give lip service that rate negotiation is a bad thing . . . yet nobody will say no."**

**Roberta Garfinkle**
**Vice president, director of print media, McCann-Erickson**

In other cost areas, paper offers some relief. After getting bashed by two 5% paper increases in 1988, relieved publishers should find paper prices relatively flat through '91, according to a paper industry consultant who requested anonymity. Postal rate hikes will cause mail-order catalog companies to cut down on the number of catalogs they send out for prospecting, and this paucity of catalogs will lead to an over-all softness in the paper market for coated magazine-type paper. The same consultant predicts a 4% cost-of-living increase in printing prices for '91, and an 8% increase in the price of ink beginning the third quarter of this year.

Whichever way the ad rates go next year, the conflict between rising publishing costs and falling print budgets puts media people in a compromising position. They will have to mollify surly clients, while evaluating publishers' woes. And most agree the publishers who come through with creative ways to make their lives easier are likely to get what business there is. ■

# ANYONE GOT A CURE?

**Feverish publishers are trying some new remedies to cure the business magazines' current malaise.**

**by Joe Mandese**

"It's like a bad flu." So sniffs one major trade-publishing executive as he looks at the business press going into 1991. "It's not exactly terminal," he groans, "but it's going to take some healing before it gets any better."

Most publishers admit they too have the bug. Except for a few pockets of vitality, the 1991 market for business publications will be lethargic at best, critical at worst.

Continued uncertainty about both the general and industrial economies, matched by fierce competition among trade publishers and from trade magazine alternatives, means that few business books will see ad revenue increases in a year that promises a big boost in some costs. The result will be even further pressure on publishers' margins, forcing many to rethink their ways of doing business and, for some, even what business they are in.

"I think we're looking at a good 4%-5% hit on margins," predicts trade magazine publishing consultant Bill Fahy, a principal of Momentum Communications, in calculating the combined effect of higher costs and flat ad revenues. Paper and printing aren't a problem: They're expected to hold the line. But proposed hefty postage hikes are sending publishers into a fever as they look at the year ahead.

While those increases will be significant for all magazine publishers, they will hit the trade press particularly hard. "It's a much bigger issue for the business press than for consumer magazines," explains Association of Business Publishers president John Emery. The new rate structure, he says, discriminates against trade publishers because of the way their magazines are distributed.

Here's why. For the first time, postal rates for editorial matter will be based on geographic zones instead of on a flat national rate. This system favors magazines that can be shipped from different locales and, unlike many large circulation consumer magazines, most business books are shipped from a central point.

"It's a large circulation vs. small circulation magazine issue," explains Emery. "Almost all business magazines are single or limited entry points, as contrasted to the larger circulation consumer books." As a result, the ABP estimates that postal rates for its member magazines will rise from 23%-45%.

Consider the impact of such increases on a publisher like Penton Publishing. President Sal Marino

## STOCK IN TRADES

Basic Data for Business Magazines Selected Years — 1970-1989

| | 1989 | 1988 | 1987 | 1986 | 1985 | 1980 | 1970 |
|---|---|---|---|---|---|---|---|
| Number | 3,949 | 3,847 | 3,883 | 3,541 | 3,486 | 2,650 | 2,376 |
| Advertising in major magazines | | | | | | | |
| Pages (thousands per year) | 1,881 | 1,845 | 1,845 | 1,820 | 1,811 | 1,700 | 1,093 |
| Dollars (millions per year) | $ 3,858 | $ 3,640 | $ 3,500 | $ 3,250 | $ 3,021 | $ 1,925 | $ 836 |
| Circulation per issue (millions) | 73.4 | 72.0 | 72.0 | 72.0 | 72.0 | 66.8 | 62.3 |

*Sources: James B. Kobak & Company*

estimates that his magazines will average about a 28% postal increase, which would require about a 3%-4% ad page increase to amortize. Meanwhile, he estimates that personnel costs will increase between 5% and 8%. He is budgeting no increases in paper costs and only about a 2%-3% increase in printing services. But as a result of the postal and personnel hikes, he says Penton's overall budget will increase 8%-10%.

# BUSINESS MAGAZINES

"All things considered, we are facing a big hit on our bottom line, unless we can get a rate increase," admits Marino. That, he concedes, will be a tough order.

Bill Hebel, J. Walter Thompson, Chicago, vice president and account media director on McDonald Douglas and Northern Telecom, doesn't give him much reason for hope. "Probably the biggest influence on rates for 1991 are going to be client budgets — and all of the budgets are disappearing," he says. "There might be a couple of magazine categories that will see the traditional 5%-10% if they can prove they're worth it — through additional circulation, for example, or maybe because they've leap-frogged the competition. But even for 1990, we saw a lot of books coming in with flat rate cards or marginal increases that nobody paid anyway."

"Barring any major product category that comes in and does a hell of a lot of spending, I think that it's going to be a very modest growth year: no more than 3%-4%," adds Ketchum Communications media director Mike Walsh. "And many categories will be flat."

Walsh says advertisers are unsure of their own business environments. "You see a lot of tentativeness on the part of clients. It used to be that you got a schedule approval, and it was good for a year. Now they've got it down to only approving one quarter at a time. There's just a reluctance to any long-term commitments," he explains.

As an example, Walsh cites client Digital Equipment Corp., which he says is "doing okay," but is "very cautious and tentative. We do a plan, and then we keep revising it and reviewing it. All in all, it may end up what we'll be doing, but it's a very go-slow process."

Such tentativeness is pervasive among business advertisers. According to the Business and Professional Advertising Association's biannual survey of its members' communications budgets, only 54% said they had increases between 1988 and 1990. Twenty-six percent were flat and 19% decreased their budgets. "Much of the increases that were made were eaten by inflation and were spread out over more media options," says BPAA president Ron Coleman, noting that publishers of specialized business magazines are facing more competition from other communications media, including such new media as compact discs.

According to the survey, however, trade books appear to be holding their share of overall budgets, albeit at their historical lows. Coleman says trade magazines traditionally claim between a 30% and 37% share of business advertisers' communications budgets. The most recent survey finds business advertisers at the bottom of that range, apportioning 30% of their budgets to the trade press, down from 32% in 1988.

The reductions in trade press spending are biggest among large advertisers, says Coleman. "If you have a budget of up to $500,000, it's 36% of your budget. If you have a budget of $500,000 to $1 million, it's 31%. If you are spending more than $1 million, it's only 26%.

"The days are gone forever when an advertiser has the luxury of going out and buying the three or four leading magazines in the field," says Coleman. He projects that business publications will see a "flat to 6%" increase in 1991, depending on the category.

And after that? McCann-Erickson vice president and associate media director Lee Oakes sees the BPAA's historical pattern falling victim to the new environment. "Business-to-business has changed. Once it meant only trade publications, but a lot of that money has now moved into other areas like cable or over-the-air television. And a lot of it is going into direct marketing. Business and trade magazines are going to feel the pinch," she predicts.

Moreover, Oakes believes this is not just a short-term phenomenon related to current economic conditions. "The money that has gone out of the trade won't come back. It's gone to other media and to direct marketing. Looking at our own advertisers, we find much less re-

**PIN-STRIPED RATE HIKES**

Business-book rates have risen more conservatively than their consumer counterparts.

| | Unit Rates | Cost-per Thousand | Consumer Price Index |
|---|---|---|---|
| 1970 | 100 | 100 | 100 |
| 1980 | 157 | 148 | 212 |
| 1981 | 166 | 158 | 234 |
| 1982 | 181 | 172 | 249 |
| 1983 | 195 | 186 | 258 |
| 1984 | 211 | 201 | 269 |
| 1985 | 228 | 218 | 279 |
| 1986 | 244 | 233 | 284 |
| 1987 | 256 | 245 | 295 |
| 1988 | 269 | 257 | 310 |
| 1989 | 274 | 266 | 325 |
| 1990 (est) | 285 | 275 | 338 |
| 1970-80 increase | 57% | 48% | 112% |
| 1980-90 increase | 81 | 86 | 59 |

Sources: James B. Kobak & Company

liance on trade publications and more on such things as business-related television," she says.

According to the BPAA survey, major communications budget components following trade publishing's 30% share are company catalogs (16%), trade shows and exhibits (14%), direct mail (10%), publicity (5%) and general business publications (4%).

Following these road signs, many publishers have been actively expanding their marketing service base to include direct marketing, list management, catalogs, seminars, research and printing services. "We're trying to sell our products with the full-service aspects," says Robert Burton, president of ABC Publishing and chairman of the ABP.

Not only do these extra services entice advertisers to make bigger and longer-term commitments to some publishers, but for others they are lucrative profit-centers that offset losses in ad revenues. According to the ABP's Emery, some business publishers now derive "as much as 50%" of their revenues from such ancillary services.

"Happily, we have structured our company so that we have a wide range of services that we can offer advertisers," says Penton's Marino. "We have research capabilities. We have direct-marketing capabilities. We own our own printing plant. We own a direct marketing company. We own Penton Learning Systems, which develops courses and seminars for executives. And we have a relationship with the Saddlebrook Golf and Tennis Resort, so that we can offer some inducement for people who want to hold their sales meetings there."

Oakes' dire diagnosis for the trades, however, is not seconded by everyone. Some analysts believe that advertisers' reductions of trade magazine spending merely reflects current economic conditions. Media industry consultants Veronis, Suhler & Associates note in their annual communications industry forecast that business magazine advertising tends to be more sensitive to changes in the national economy than most media.

"Since 1970 it has grown in real terms at a faster rate than the overall economy during expansionary years," reports VS&A. "However, during years when real economic growth was either sluggish or declining, real business magazine advertising fell, and at a faster rate than the economy."

Grouping this period by declining, moderate and high growth years, VS&A found that in the years when the real gross national product (GNP) declined a total of 0.9%, business magazine spending was down 6.1%. In years of moderate growth, when the GNP rose a total of 2.9%, business books still fell 0.9%. But in years when the GNP rose a total of 5.1%, trade magazines outpaced it with a 6.5% growth rate.

So will trade advertising rebound with the economy? The answer is, maybe. Although healthier economic conditions should free advertisers to spend more on building brand names and image, it will likely take trade magazine rates a while to catch up because they have been softened by rate negotiation.

"They're competing on a cost basis rather than on the value of markets," says William MacKay, vice president and director of media and planning of Rumrill-Hoyt, Rochester, N.Y. "Once you get into that situation, it's very difficult to raise your rates, even if you're getting hit with higher costs."

JWT's Hebel agrees, noting that there likely will be a lag following any economic correction. "It's going to be a slow process getting back up to rate card. Once you've allowed us to go to the well, it's going to be real hard for some of these books to charge us full rates again, because then we would be looking at tremendous percentage increases," he explains. "And we won't stand for that. We'll take them down to the mat. They've opened the door for us," he says, "and we're not going to close it." ■

## THE POSTAL PUNCH

Magazine publishers' cost increases have been dominated by postal jumps.

| | Paper | Printing | Postage 1st Class | Postage 2nd Class | Postage 3rd Class | Salaries | Consumer Price Index |
|---|---|---|---|---|---|---|---|
| 1970 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1977 | 175 | 170 | 217 | 218 | 197 | 161 | 156 |
| 1978 | 197 | 185 | 250 | 290 | 221 | 172 | 168 |
| 1979 | 211 | 200 | 250 | 343 | 221 | 181 | 187 |
| 1980 | 235 | 220 | 250 | 343 | 221 | 202 | 212 |
| 1981 | 259 | 242 | 300 | 321 | 274 | 226 | 234 |
| 1982 | 270 | 266 | 333 | 348 | 287 | 253 | 249 |
| 1983 | 262 | 271 | 333 | 348 | 287 | 271 | 258 |
| 1984 | 301 | 279 | 333 | 348 | 287 | 287 | 269 |
| 1985 | 345 | 287 | 366 | 407 | 316 | 301 | 279 |
| 1986 | 324 | 292 | 366 | 407 | 316 | 316 | 284 |
| 1987 | 334 | 298 | 366 | 407 | 316 | 329 | 295 |
| 1988 | 389 | 304 | 416 | 481 | 395 | 342 | 310 |
| 1989 | 399 | 315 | 416 | 481 | 395 | 359 | 325 |
| 1990 | 399 | 324 | 416 | 481 | 395 | 377 | 338 |

*Sources: James B. Kobak & Company*

**"The biggest influence on rates in 1991 will be client budgets — and they're disappearing."**

**Bill Hebel**
**Vice president, account media director, J. Walter Thompson, Chicago**

# ANYTHING GOES

**After 16 years of gains, the rate differential actually dropped in 1989. Expect it to fall further as premiums are reduced and some advertisers avoid them altogether.**

**by Michael Garry**

When the going got rough for magazine publishers in the mid 1980s, they resorted to a very eighties tactic — The Deal. Now it's the nineties, and quite a few magazines have joined Donald Trump in the scramble to recover from those freewheeling days.

Newspaper publishers felt all the same pressures, but at least they managed to stick steadfastly to their published rates. Or did they?

Yes and no. The major dailies with must-buy status may have, but look elsewhere and you see a different picture. In small to mid-size markets, national advertisers often are paying lower rates supposedly reserved for co-op, dealer association or retail advertisers.

With retail and classified suffering in stagnant local economies, publishers are looking for every available dollar, and some are doing whatever is necessary to become national-user friendly. (The national category is the healthiest one for newspapers so far this year, with national ad revenues up 5.4% in the first quarter, compared to a gain of 2.7% for retail and a fall of 6.4% for classified, according to the Newspaper Advertising Bureau; the NAB projects overall newspaper ad growth of 3% to 4% in 1990, and 5% to 6% in 1991.) Certainly every publisher has felt the heat from national advertisers, who have long been kicking and screaming about national rates being higher than local retail rates — the notorious rate differential.

Since 1973, the last time the differential dropped from the previous year, this gap between national and local rates has steadily risen from 48.2% (national over local) to 66.2% in 1987. After skipping 1988, a study by the American Association of Advertising Agencies finally showed a drop in the differential to 62.03% in 1989 — four whole percentage points.

The 4As calls this "a promising development rather than a trend." But buyers and sellers alike report continued erosion of the national rate, both on and off the card.

Charles S. McKeown, vice president, general sales manager for the rep firm Sawyer Ferguson Walker Company, thinks the differential will continue to shrink, but at a slower pace — he puts the increase in national rates at 4% to 5%, and the rise in retail at 5% to 6%, thus further shrinking the national/retail gap. "Business is bad," McKeown says. "It's not the right atmosphere to move rates up much."

Gerry Anderson, national ad manager of the *St. Louis*

## VIVA THE DIFFERENTIAL

The bigger they get, the more they charge as the general/retail rate gulf outlives efforts to attract more national advertising.

| A.B.C. Circulation | Number of Papers | Retail Rate (1,000 inches per year) | Gross General Rate | 1989 The Differential |
|---|---|---|---|---|
| Up to 25,000 | 427 | $2,978.40 | $4,177.86 | +40.27% |
| 25,000-54,000 | 257 | 2,732.67 | 4,034.16 | +47.63% |
| 55,000-101,000 | 112 | 2,064.18 | 3,192.42 | +54.67% |
| 101,000-250,000 | 76 | 2,367.98 | 4,079.31 | +72.27% |
| Over 250,000 | 48 | 3,581.56 | 6,796.22 | +89.78% |
| Total | 920 | $13,744.79 | $22,270.00 | +62.03% |

Totals in the summary are based on data for 920 A.B.C. daily newspapers.
Where national advertising is sold on an optional combination basis, totals include rates for the optional combination, and such combinations are counted as one newspaper.
General rates are shown before deduction of agency commission and cash discount, if allowed.
*Source: American Association of Advertising Agencies*

*Post-Dispatch*, is thinking even leaner — he envisions a rate rise of just 2.5% to 4%. "We're fighting for a decreasing share of the manufacturer's budget right now," says Anderson.

Among small to mid-size papers, "The marketplace is squeezing national rates out of existence," says McKeown. "I don't think national rates will be [in those markets] by the year 2000." Does this mean that the smaller papers are, in effect, going off their rate cards? "They're creating things within the rate structure," says McKeown. "But maybe that's just semantics."

Anderson winces at any mention of off-card deals. "You're talking about a comfort zone for publishers that's been in place for two to three generations," says Anderson of the way newspapers do business. "We're not about to change without a real trauma." Adds Mark Dacey, senior vice president of advertising, the *Chicago Sun-Times*, "I would hate to see our industry fall into the pricing maelstrom consumer magazines are in."

But newspaper analyst John Morton, noting in *Barron's* that newspaper rate hikes have been at or below the inflation rate for the last three years, doubts that "newspapers are ever again going to be able to raise rates faster than the inflation rate."

One plus factor for publishers, notes Morton, is the softness in newsprint prices, which are being heavily discounted off their quoted rates. PaineWebber analyst Ken Noble puts the discount rate this year at 25%, which more than outweighs a posted newsprint increase of 5% announced by one Canadian mill; he expects an increase in posted prices next year as well. Other cost pressures, such as union demands, have not been significant, except in specific markets such as New York. "Wage increases have been modest, while staff sizes have been flat or even cut slightly," says Noble.

So the accent is on shoring up eroding business and bringing in new categories. To do so, many publishers are becoming much more open-minded when it comes to pricing.

At the *St. Louis Post-Dispatch*, for example, Anderson has recently established a co-op rate card, which he calls "the national rate card of the future." It sets up a rate between national and retail. By running a dealer list, a manufacturer qualifies for the lower rate. And Al Larranaga, national ad manager for *The San Diego Union*, says, "We're bringing national to the local level" in a program that targets such industries as food and travel.

Since 1985, about one-quarter of national advertisers have paid bottom-of-rung rates for newspaper advertising, according to McKeown. "This is national business being counted as co-op or retail business," he says.

The NAB's Pricing and Positioning ask Force has even formalized the trend — sort of — by putting together a string of recommendations for publishers. The Task Force suggests, for example, that papers establish "Standard National Advertising Volume Breaks" to make newspapers easier to buy; offer additional incentives for repeat ads; make discounts for national ads more in line with those for retail; and charge different rates for different categories of national advertising. The NAB says that 516 out of 790 newspapers surveyed in 1989 have adopted the Standard National Advertising Volume Breaks.

But outside of such set-ups, there are still deals to be made. A recent example: Because Lexus and Infiniti, the luxury-car subsidiaries of Toyota and Nissan, established dealerships only last year, neither had the track record to secure dealer-association rates. Nonetheless, says McKeown, these companies bought multiple insertions of large partial ads at dealer-association and retail rates. The ads "were placed through local dealers, even though the national agencies sent the orders and paid the bills," he adds.

Lexus spokesperson Art Garner replies that it's common practice to negotiate for the best rate. "When we strip in a list of dealers, local rates are applicable," he insists. Infiniti declined to comment.

**"I would hate to see our industry fall into the pricing maelstrom consumer magazines are in."**

**Mark Dacey**
**Senior vice president, advertising,**
***Chicago Sun-Times***

Elsewhere, AT&T Phone Centers has bought newspaper space at retail rates, rather than national rates, says McKeown. AT&T also justifies this by inserting local store listings in each national ad, says Michele Torsiello, ad manager, AT&T Consumer Products. And food companies have replaced ROP food coupons with low-priced preprinted inserts, says Steve Seraita, executive vice president, Branham Newspaper Sales.

At the top ten to 15 papers — behemoths such as *The New York Times*, *Chicago Tribune*, *Los Angeles Times* — publishers can still "demand national rates and get them," says McKeown. In fact, it's partly because the top-market papers have gobbled up so much of national advertising budgets that smaller papers have had to offer more attractive rates to survive.

In Wichita, papers have tried eliminating the rate differential altogether. Or, as at the *Sacramento Bee*, where the differential is 34%, smaller-market papers tried to keep it close to the 25% advertisers will accept as necessary to pay agency and rep commissions. But it doesn't seem to make much difference. "Even if our differential

## NEWSPAPERS

was 25%, advertisers wouldn't guarantee us much business," says Clifford Chapman, national ad manager for the *Sacramento Bee*.

Meanwhile, it may be in the major papers' best interest to keep the differential where it is, even if it keeps many national advertisers out of their pages. In McKeown's view, those papers simply are making too much money off the current system to change. "They can't take 20% of their business — in some cases up to 40% — and cut it in half for the good of the industry," says McKeown. "Their stockholders wouldn't go for that," he deadpans.

That could explain why some big-market buyers are planning for bigger increases. Newspaper Advertising Bureau reports that 60% of the dailies raised their national rates an average of 5.5% in 1990. Myles Groves, vice president, economic media analysis, doesn't expect much difference in 1991. Branham's Seraita, however, predicts a 6% to 7% rise in national rates.

On the buying side, Bud Shields, vice president, general manager, buying group, Lintas:Campbell-Ewald, sees the flat economy keeping rate increases at about 6% to 7% in 1991. Also foreseeing a 7% jump in national rates is Jack Cohen, vice president and director of print and outdoor media buying, DDB Needham Worldwide. Cohen cites inflationary jumps in newsprint and labor costs driving the ad hikes. "If publishers can keep their rate increases to a minimum, it would sure help us sell newspapers to our clients," says Cohen.

**"If publishers can keep rate increases to a minimum, it would help sell newspapers to our clients."**

**Jack Cohen**
**Vice president, director of print buying, DDB Needham Worldwide**

But while price is page-one news in the newspaper industry, many feel it draws too much attention. Seraita, for one, believes that the whole price differential issue is a red herring. Even with high rates, newspapers' cost per thousand is lower than those of broadcast and magazines, he says.

The hard cold fact, says Seraita, is that "ad agencies just don't believe newspapers are as effective as tv in building brand image." What newspapers need is more and better research demonstrating their effectiveness as a national vehicle, he adds, noting that the Advertising Research Foundation is supposedly exploring this issue.

"Although newspapers are perceived as a price-item vehicle," says Seraita, "there are things you can do with newspapers that you can't do with tv. But agency creative people just don't get excited by print."

Adds Chapman of the *Sacramento Bee*, "Agency people are not well schooled in newspaper creative. The NAB used to do a better job showing agencies how to use print creatively."

Indeed, the pricing issue tends to cloud real advances by the medium to improve its prospects with national advertisers. Standard advertising units, syndicated research, standard advertising invoices and numerous one-order, one-bill scenarios are making it easier to use papers. The NAB recently announced that more than 400 newspapers can now accept six standard ad sizes for their tv supplements. Then there's the growth in satellite transmission of ads by AD/Sat. And 79 out of the 100 top-circulation papers posted circulation increases for the six-month period ending March 30, according to the Audit Bureau of Circulations. Sighs a frustrated Seraita: "We've been responsive to what advertisers want. But as we knock off each problem, they come up with another one."

In other notable moves, The NAB's Sales Structure Task Force, part of its Future of Advertising project, has generated $24 mil-

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lion in national revenues for over 200 newspapers during the past few years, which Jim Wilson, NAB's senior vice president, national sales, describes as "just scratching the surface." A recent advertiser convert is RJR/Nabisco, which has scheduled newspaper ads promoting Vantage Lights and Now cigarettes.

The Sales Structure Task Force has worked off a concept the NAB calls "team selling," whereby ad reps from specific papers join with executives from the NAB in targeting ad categories where newspapers are weak. Currently eight papers — among them *The New York Times*, *Boston Globe* and *Chicago Tribune* — are addressing ten different categories, including credit cards, tobacco, automotive, cereals and insurance. The teams, working on behalf of the industry, don't always sell ads for their own papers.

American Express's Corporate Card division, for example, was persuaded to advertise in newspapers for the first time — in three markets for nine weeks — as a result of the team selling effort, says Steve Harty, general manager of Ogilvy & Mather, New York, AmEx's agency. "We were the only ad on the stock pages," says Harty. "It helped break through the clutter." In AmEx's most recent marketing plans, newspapers were not deemed strategically appropriate — no reflection on the medium, says Harty.

Newspapers are generally more flexible about national ads' positioning, notes the 4As' Beverly Plyer. "They never used to allow ads in the upper left, or the bottom right, or five pages in a row," she says. National ads are even showing up on the weather pages, says Wilson.

Networking has been another way papers have been able to attract national advertising this year. The Five Star Buy program — wherein *The New York Times* and four other major market papers published health and entertaining supplements for all five markets — was probably the most notable example of a productive national linkage. The June merger of the Knight-Ridder and Times-Mirror national sales staffs, which is offering a one-order, one-bill coverage of 37 markets, should pique the interest of more national advertisers. And in the Midwest, the *St. Louis Dispatch*'s Anderson says he is exploring combination national buys with a number of other Midwestern papers.

Demographic trends are also working in newspapers' favor. The largest slice of newspaper readers fall within the 45-to-65-age group — the very group that the massive baby-boomer population is rapidly approaching.

Finally, the growing use of color in newspapers could help their cause. Gannett's four-color newspaper network is facilitating the placement of color ads in 238 papers (not all Gannett's) nationwide. DDB Needham's Cohen thinks the big breakthrough will be when *The New York Times* finally puts color on the record and starts using it in its ROP pages. The Gray Lady will start printing color in Sunday sections in the fall, and the plan is for daily pages to follow sometime down the road.

The will-they or won't-they of rate discounting, then, is only one part of the puzzle. While national clients keep clamoring for — and getting — reduced rates, the papers keep making themselves more attractive and user-friendly. But the breakthrough in the national category that will make newspapers top-of-mind is yet to come. ■


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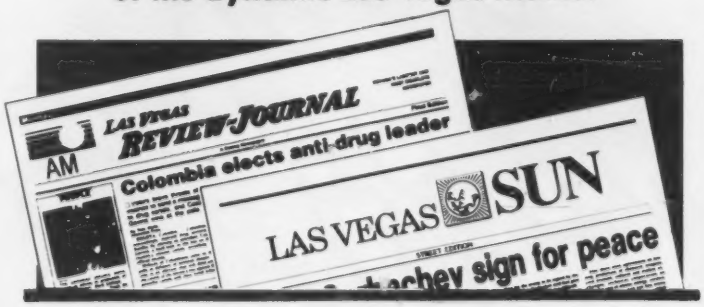


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*SOURCE: 1988 BELDEN CONTINUING MARKET STUDY

# SHOW AND TELL

**New categories are moving onto the boards, even as some majors like tobacco and liquor fall off. Will there be enough to prop up the industry?**

**by Jack Feuer**

The outlook for outdoor is just like the weather in that medium's number-one market, Southern California. If you want to know what it will be like tomorrow, look at yesterday. But watch out for earthquakes.

Rates, all agree, will keep pace with inflation but will not go much higher, if at all. The Institute of Outdoor Advertising predicts a 6%-7% rise in the $1 billion-plus industry, similar to what each of the past few years have brought. Advertisers and agencies, however, peg the increase at between 5%-6%.

"I like to think that I am an accurate forecaster of the future, and by and large, what I said last year will hold up," says BBDO vice president of out-of-home media Pete Riordan. "There will be reasonable increases on the rate card of 5% or so, and certain big-city transit franchises, such as bus shelters and telephone kiosks, will see big bumps. These new formats are extremely targetable, and often can provide good research. Some can give the names of every retail business within a block of a particular unit."

At Transportation Displays Inc., New York, senior vice president of marketing Helene Goldfine predicts rates will rise 6% to 8% for the year ahead, admittedly outpacing other media. She says demand is strong enough to warrant the increases.

All outdoor costs, of course, will vary considerably by market. Except for Southern California, most areas of the country won't sell much more than 60% of total available locations, say industry pundits. "The operators are pretty strong in some areas, soft in others," agrees Bob Flood, senior vice president and corporate director of out-of-home media (U.S.) for DMB&B in St. Louis. "Paint has maintained its strength, for example, but postings are soft."

And as in the past, the predictions are for official rate-card prices. Negotiability, especially in weaker outdoor markets, will continue to be a fact of outdoor life, with the advantage this year in the advertiser's court.

"It [negotiability] will be very good," predicts Riordan, "partly as a result of outdoor companies' reduced involvement with tobacco companies in inner city areas. With that, there should be an opening of availabilities in 30-sheet postings, bulletins, etc. Normally, local advertisers would fill that gap," he points out, but the local markets in media are not enjoying a good year, as the newspapers know all too well. So national advertisers will have an opportunity there, and a lot of people are already looking into it."

Ah, tobacco. The pungent smoke of controversy still surrounds the outdoor industry's perennial powerhouse. Pressure from core urban area activists is taking its toll on both tobacco and liquor advertisers, and the retreat from inner-city outdoor advertising shows no signs of slowing down.

On the contrary, sometime in 1991, predicts IOA president Don Byer, the tobacco category will lose its position as the pre-eminent outdoor advertising segment. "Local retail advertisers now make up the second-largest outdoor category," he explains, "and will soon be first. Tobacco is declining even faster than retail is increasing."

And as tobacco and liquor ads disappear from the inner cities, some early tremors are being felt. Not all industry experts expect national advertisers to fill the gap left by the retreating tobacco and liquor players. "The whole trend of these advertisers is to go into other mainstream arterials [30-sheets and highway postings]," believes Bob Zach, senior vice president of Chiat/Day/Mojo, and media director of the agency's New York office.

Regarding the reduced visibility of tobacco and liquor in the inner cities, Zach says, "The Outdoor Advertising Association of America [IOA's legal and regulatory arm] has established a voluntary compliance code on this, and all the big outdoor players are members. They'll probably adhere to it, and [inner-city] locations will probably be taken up by public service ads," he says. "Eight-sheets and two-sheets are probably going to suffer. They may even relocate. Until then, those units will probably carry pro-bono types of advertising. New advertisers will have to be convinced to come in, especially packaged-

goods advertisers who haven't historically been convinced to spend in outdoor in these areas."

A minority of industry players think the outcome of the tobacco controversy may be even more significant. One such expert says published rates will rise 4%-5% only if tobacco spending in the medium isn't drastically altered. But if it comes down significantly, that would undermine 30% of outdoor's revenue, and the compromising effect on pricing would be much more severe.

Still, the surprising growth of new advertiser categories in outdoor continues and might take up the slack. Packaged-goods advertisers may not be outdoor enthusiasts yet, but they are becoming increasingly active. Local retail, local media (especially electronic media), healthcare and recreation and entertainment continue to increase their presence in outdoor.

According to IOA figures, entertainment and amusement advertisers notched the largest percentage growth in outdoor spending from 1988-1989, recording a 19% rise to $106.3 million. They were followed by publishing and media advertisers (12.8%, $107.6 million); healthcare advertisers (12.1%, $37 million); apparel, footwear and accessories (12%, $23.2 million); and automotive and auto equipment advertisers (8.7%, $126.7 million), and the aforementioned local retail category. Last year it drew $155.5 million in outdoor advertising, representing 10.5% of the medium's total revenues.

**UP IN SMOKE**

**Tobacco's long-held top spot as an outdoor investor will be lost in 1990 to retail, say observers.**

**Top 10 1989 Spending Categories for the Outdoor Advertising Industry**

| Category | Amount Spent (000s) | % of Total Revenues |
|---|---|---|
| Cigarettes, Tobacco, Acces. | $200,013.8 | 13.4 |
| Retail | 155,515.9 | 10.5 |
| Business, Consumer Services | 129,909.5 | 8.7 |
| Automotive, Auto Access/Equip | 126,673.3 | 8.5 |
| Travel, Hotels & Resorts | 111,191.5 | 7.5 |
| Publishing, Media | 107,551.7 | 7.2 |
| Entertainment, Amusements | 106,294.3 | 7.1 |
| Beer, Wine, Liquor | 91,326.5 | 6.1 |
| Insurance, Real Estate | 68,535.9 | 4.6 |
| Healthcare | 37,400.0 | 2.5 |

**Top Growth Categories, 1989**

| Category | % of Category Revenue Increase |
|---|---|
| Entertainment & Amusements | +19.6 |
| Publishing & Media | +12.8 |
| Healthcare | +12.1 |
| Apparel/Footwear/Accessories | +12.0 |
| Automotive/Auto Equipment | +8.7 |

*Source: Institute of Outdoor Advertising.*

Outdoor players see no change in those trends in 1991. They also predict continued interest in using outdoor to reach ethnic markets, something outdoor's targeting ability makes it eminently qualified to do. But outdoor companies are a bit discouraged on this front, saying the ethnic category is all potential and little pay out.

In Hispanic marketing, for example, which is getting a lot of attention from marketers and the trade press, industry consultant and former Patrick Media Group vice president Tom Hudson says, "We're underwhelmed. It's a natural fit, and in most major metropolitan areas our inventory matches up well with Hispanic demos, but it has not been as significant as many have believed."

Such is not the case with the proliferating array of new technology, which has many in outdoor enthusiastic. Laser technology, new planning methodologies and other innovations continue to bode well for outdoor's future. In January, the outdoor industry will unveil its Harris Donovan system, a new method of determining outdoor reach and frequency that is intended, says IOA's Byer, to supplant the Ammo system. The new system offers more fine-tuned estimates using SMRB, MRI and Traffic Audit Bureau data. Most agency executives welcome Harris Donovan, which has been in use in Canada for several years, but not all are enthusiastic.

C/D/M's Zach will believe it when he sees it. "Outdoor's reach and frequency is so vast compared to electronic media that such data would be difficult to use. There's an inability to really make such data comparable to broadcast."

Zach does side with the majority, however, in his excitement over the growing use (by packaged-goods advertisers in particular) of in-store and other out-of-home or under-the-roof forms of advertising. Point-of-sale, he says, "is one of the real shining stars of out-of-home. Because it is much more accepted by packaged-goods guys, it will make it much more likely they'll use outdoor since their in-store stuff is so effective."

At BBDO, Riordan concurs. "There is going to be a lot of good places for packaged-goods advertisers to spend their dollars. Plus, with point-of-sale, they can target, pinpoint neighborhoods."

Costs here are much trickier to call because the rates are built on so many variables — foremost, the number of stores. Also, new options come and go with breathtaking speed.

A final trend likely to accelerate in 1991 is improved creative. Of particular note are the mergings of outdoor with commercial voice-mail systems, such as the 777-FILM program Patrick Media is having success with in L.A. The boards bear a number that moviegoers call to find out specifics about what's playing where. Push button interaction helps the caller find his flick.

These kinds of team-ups give outdoor the ability to provide information and education as well as brand awareness. And if creative gets excited, the account side gets excited, and outdoor becomes a much easier internal sell for the media departments. ■

# ACT LOCAL, THINK NATIONAL

**Publishers' wide-eyed strategies for growth have given way to a sharper focus on the home turf. Prices will depend on how much competition is still in town.**

**by Veronika Ullmer**

Yellow pages may have a dull image, but they've been on a wild ride. Following AT&T's divestiture in 1984, a free-for-all took place as the RBOCs (Regional Bell Operating Companies) moved into each other's markets, swelling the directory ranks to a high of 6,700 in '86. Although there are some regional markets where competition between utility and independent publishers still thrives, most of the regionals have gone back to publishing in their own territories. Instead, publishers have embarked on new market-driven ventures to strengthen their core product and attract non-traditional national ad dollars into the yellow pages.

This year, there are 6,300 directories on the market, reports the Yellow Pages Publishers Association. "Publishers today have gone back to producing directories for the areas they know best," says Mary MacDonald, managing director/CEO of DMB&B Yellow Pages. "Today, they are consolidating and developing their product, rather than expanding it," observes Ed Schneck, executive vice president, Wahlstrom & Co., Foote, Cone & Belding's yellow pages unit.

In this environment, rates are not expected to rise dramatically in 1991. Most industry estimates are in the 4% to 7.5% range, varying by market growth and competition. Publishing costs are relatively stable. Ted West, vice president and general manager of marketing services, Pacific Bell Directories, reports "distribution and selling costs have remained in-line with inflation." Chuck Vessey, paper purchasing specialist with SouthWestern Bell Yellow Pages, says prices on directory text stock should go up in the first half of 1991, after two years without an increase.

Growth figures for the industry also look solid. Communications Trends Inc., Larchmont, N.Y., forecasts a 7.3% revenue growth to $8.26 billion in '90, following an 8% increase in 1989. It predicts that national ad revenues will rise by 8.6% in '90 to $1.1 billion, outpacing the much larger local market, which should grow 7.2% to $7.2 billion. "The real growth opportunity rests in the hands of the national advertiser, particularly the consumer packaged-goods and financial services companies," says Wahlstrom's Schneck. "Business as usual is not going to attract any more ad dollars into the medium."

But national accounts need hard numbers. "As publishers introduce new products directed primarily at packaged-goods advertisers, they will have to deliver gross-impressions/guaranteed-audience figures," insists Steve Troy, president, Ketchum Yellow Pages/Los Angeles. "They can't do it without syndicated research —

## THEY ARE CURIOUS, YELLOW

Growth has been strong and steady for national advertising in the yellow pages.

National Ad Investments

**1989's Top Advertisers**

**$20+ Million**

General Motors
U-Haul

**$10 Million to $20 Million**

Ford
Chrysler
Dodge
Chrysler/Plymouth
Jeep/Eagle
Renting & Leasing
Midas
Ryder
General Electric
AT&T

**Under $10 Million**

Budget
Allstate
Meineke
Xerox
Terminex
Mayflower
North American Van Lines
Bekins Van Lines
Allied Van Lines
IBM
Roto-Rooter (corporate)
Pizza Hut

*Source: Communications Trends, Inc.*

it's that simple," says the buyer.

Pacific Bell and Bell South have taken the lead by signing with the National Yellow Pages Monitor service. Using the weekly diary method to record consumer usage, NYPM tracks all the directories in 22 of the largest markets in California and the Southeast. Publishers and agencies can subscribe to this service, which releases uncensored results to both parties simultaneously. The problem is, only two publishers are signed up. "Until we get them all," says MacDonald, "it's difficult to give a national client solid usage numbers in a couple of regions of the country and ask them to take your word on the rest." U.S. West has been pegged as the next RBOC likely to subscribe.

Southwestern Bell (SWB) opted to go with Statistical Research Inc., whose research does not hold the same appeal with some media professionals due to sample size, interviewing methods and market selection. "What SRI is doing for Southwestern Bell is not syndicated research," says one buyer, "it's research that Southwestern is controlling, funding and distributing." But Mary Beth Schuck, manager of market research, SWB, responds, "We chose SRI initially because they did the YPPA National Usage Study, and we felt theirs were standards we wanted to maintain — right, wrong or indifferent, we wanted comparable data."

The YPPA held a symposium in July with the ARF and approximately 60 representatives from all the vested parties (publishers, agencies, ASRs, advertisers, researchers). The group aimed "to look at the research needs of the industry, both for syndicated usage and circulation, and begin to set some standardized methodology that would lend more credibility to the numbers," notes Larry Small, vice president, marketing, YPPA. Although agencies are optimistic about the conference, "I'd be very surprised if this is resolved in a year to 18 months," observes Ketchum's Troy.

**"Business as usual is not going to attract any more ad dollars into the medium."**

**Ed Schneck**
**Executive vice president,**
**Wahlstrom & Co.**

In the meantime, publishers are trying to attract national consumer packaged-goods and financial services with a product titled "Brand Sell." This involves publishing an exclusive image display ad under a complementary heading — for example, Crest toothpaste under the dentist category.

Pacific Bell successfully tested the concept in San Francisco and Los Angeles last year and is working with the industry to develop a national market test beginning in November. The YPPA issued a rate card for the product in July, making a network buy possible. Troy of Ketchum says, "We think publishers have priced them reasonably, particularly PacBell and SWB, charging probably 10% of the normal rate."

DMB&B's MacDonald doesn't see it as a major breadwinner long-term for three reasons: Only the top ten to 15 headings have the usage numbers to sell against; heading exclusivity limits the number of ads; and most advertisers will want only the top books. Still, the concept could bring new national visibility to the medium.

Another new product is "audiotex," otherwise known as "talking yellow pages." Trialed by a number of independent publishers and some RBOCs, it hasn't turned out to be a big revenue producer. According to the Audio Tex Group, a consulting firm in Princeton, N.J., audiotex listings produced only $140 million in '89. "Frankly," says Ketchum's Steve Troy, "audiotex has been a major disappointment."

Front-of-the-book numbers have proved more popular than others, enticing consumers to open the book to call for weather, horoscopes, etc. However, "Publishers have not been able to sell enough front-of-the-book advertising to offset its costs," reports Troy.

As for back-of-the-book audiotex, "the concept is good, but the implementation leaves something to be desired," explains YPPA's Small. Ted West of PacBell, which is currently running a market test in Sacramento, says, "Some creative has been very professionally done and some is terrible . . . like the UHF tv guy in the plaid jacket." Nynex is still trying out its audiotex pages, introduced in the Queens, N.Y., market in May '90 as the "Nynex FYI Pages."

PacBell would ultimately like to develop the concept nationally. And if and when the RBOCs are allowed to participate wholly — they're currently restrained by a modified judgment by the courts — "we're talking about a different ballgame, with bigger muscle behind it and national availability," predicts MacDonald.

Specialty directories, once viewed as a hot growth area, have mostly been scrapped, with a few esoteric exceptions. Nynex, for example, has achieved success with its "Boaters Directory," targeting recreational boat owners the first edition introduced in '87 in two markets, expanding to nine in '90. SWB's "Mobile Books," mini-directories aimed at cellular phone owners, have also done well. And PacBell is confident about its seven Spanish directories, building up circulation to over one million since their introduction four years ago.

Other products aimed at national advertisers that are currently being tested are Nynex's "Catalog Pages," nine pages of magazine-grade stock touting national catalogs that users can receive by calling the advertised toll-free numbers; PacBell's "Smart Connection," offering product samples delivered with the directory, as well as coupons and business response cards bound into the books; and U.S. West's "National Trademark Display," enabling national advertisers a large display ad listing local dealerships underneath.

"There's been a changing of the guard," says Schneck, "and most major publishers are making an effort to seek agency and client advice as to where to go from here." Any guesses? ■

# POST MORTEM

**Pie-e-eze, Mr. Postman! Wait a minute, Mr. Postman! Another rate increase has direct marketers testing alternate delivery services, the telephone and even tv.**

**by Samuel Benjamin**

With yet another round of postage hikes slated for next January or February, direct marketers are taking their annual vows: fewer mailings, cleaner lists and lighter paper. More than a few think 1991 will be the year that alternatives to the postal service — telemarketing, other delivery systems and direct response television — finally make economic sense.

Direct marketers aren't expecting these media alternatives to cost much more next year. And they don't expect to see any serious increases in paper, lists or production. But third-class mailers are clearly in for a major hit. Of course there will be some tinkering before the proposed rate increases go into effect, but the postal service is requesting 10%-20% hikes on third-class letters and even bigger hikes on catalogs and flats. "Catalogers are looking at a 20% to 30% increase in postage costs," says Barbara Segers, national manager of catalog production for Sears Catalog, Skokie, Ill.

The postal service says this is because it can't automate handling of catalogs yet, and promises that when it can — probably in the next year or two — it will offer discounts for catalogs and thereby cut the inequity. But the plan doesn't sit well with large mail-order companies such as Sears, J.C. Penney, Primerica and L.L. Bean. With 17% of Segers' budget devoted to postage (it's often 30% and more at other companies), she is looking to save by going to lighter weight pieces and paper stock.

Still, there's a limit to how light paper can be before problems such as bleed-through or poor reproduction starts to affect response rates. And some see all the talk about lighter paper and digest-size catalogs as dangerous folly. "These are marketing decisions, not postal-rate decisions," insists Paul Gelhaus, executive vice president of marketing for Fingerhut, Minnetonka, Minn. "If you're talking lighter weight paper, you should have been there before. We may look a little harder and reanalyze our testing, but I don't see any major shifts here," he says.

Still, most direct marketers say they will mail less in 1991, and many are borrowing from next year's budget for a blitz late this year. Robert Coen, senior vice-president of McCann-Erickson, New York City, projects a 4% increase in third-class mail volume in the fourth quarter. It has been flat for most of the year and was down by 2.3% in 1989.

Printing and production costs are expected to hold steady in 1991. "There is no question in my mind but that the number of catalogs to be printed will be fewer, which will open up capacity at printing houses, letter shops and paper mills," says Maxwell Sroge, president of Marke/Sroge Communications, Chicago.

Constantine Milas, a partner in Kimmel and Milas Advertising, Fair Lawn, N.J., says more customers are asking to have jobs priced on both regular and recycled paper. Prices for recycled paper can vary greatly, so he suggests careful planning.

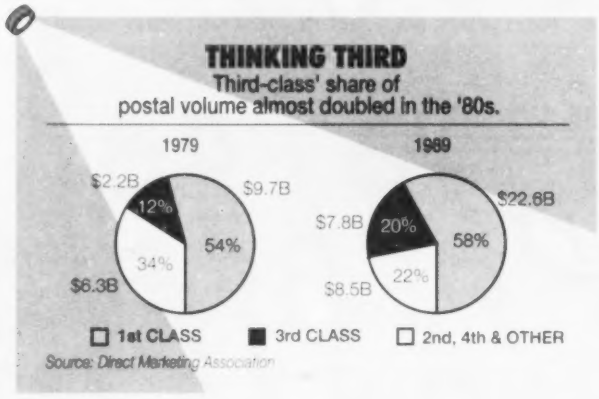
Some marketers have complained that lists are overused, contain too many duplicates and are becoming increasingly non-productive. Though list prices have been holding steady, marketers say they plan to ask for more "selects" by ZIP code, income level and other factors — which will drive their costs up.

As for delivery, there are other ways to play the post-office game. New rules provide more discounts for trucking pieces to bulk-mail centers, for example. And some marketers see an opening for alternate delivery systems in the next few years. "We've done some work with them, but the problem is getting enough players for it to get the costs down and make sense," says John Alba, vice president of marketing for Artistic Greetings, Elmira, N.Y.

Several specialty catalog firms have formed a group within the Direct Marketing Association to push for more use of alternate delivery systems. One member of this group, Chris Rebello, director of postal affairs for Current Inc., Colorado Springs, says the postal increases will make alternate delivery an important part of specialty catalog distribution programs. Naturally, alternate system operators agree.

"We've already seen an increase in interest and activity even with the threat of a postal increase," says

Phil Miller, president of Alternate Postal Delivery Inc. (formerly United Delivery Systems), Grand Rapids, Mich. Now in 13 markets, mostly in the mid-West, the firm plans to stretch its reach to at least four more cities next year, including Greensboro, N.C., Tucson and Salt Lake City.




Miller says his firm generally works directly with clients, but has plans to bring media buyers into the loop. "You might be able to buy a full page ad in a magazine using alternate delivery and go in with a sample," he says. Miller's rates will increase about 5% next year.

No matter what the delivery vehicle, marketers agree they will put more emphasis on having materials ride piggy-back. By all indications, 1991 should be a banner year for statement stuffers, marriage mail and other cooperative efforts.

There should also be more use of the telephone, whose biggest problem is the supply of quality labor. Deregulation has kept long-distance costs down, but finding good telephone workers is getting more difficult — and expensive. "Companies are getting hypersensitive to phone interaction," says Richard Grunsten, president of GSP Marketing Services, Chicago. "With some catalogs, 90% of orders come in by phone. By asking for credit card information before the person starts ordering, we get a higher purchase because we are creating an open-ended purchase order," Grunsten says. "Having the operator say 'next item' instead of 'do you want something else' can increase order size by 20%. Telemarketing is high-cost, but has a high return."

Direct-response tv in the past has been known better for its high cost than for its high return. But that may be changing — partly because of postal increases, and partly because so many lists have been worked to death that marketers are eager for new names.

"We're recommending to many direct marketers that they try tv and let those prospects self-identify," says Marianne Branda, senior vice president and media director for Grey Direct, New York City. "It doesn't always make sense. We suggest it for broadbase efforts rather than targeted prospecting.

"In terms of cost increases, you're probably looking at 8% to 10% next year. There are smaller inventories [of time] — especially on cable because general advertisers are beginning to feel more comfortable with it and are using it more. Some cable operators don't even have basic two-minute inventory available," she says.

And Hal Zwick, senior vice president and director of media for Wunderman Worldwide, New York, says postal hikes are causing more clients to explore direct response tv. "Whether it will be at a profitable level remains to be seen" he says.

Still, the postal service will continue to get the lion's share of budgets despite anger over increases. "You can't shoot yourself in the foot over this," says Ron Greene, managing director of Devon Direct, Malvern, Pa. "If mail is providing you with a return that meets your cost-per-order requirements, you're just going to continue." ■

**THE ANSWERING MACHINE**

**Inquiries regarding selective mailings show big variations in responses by type.**

| Description: | Range: | Prevalent Acceptable Rate |
|---|---|---|
| Catalogs, consumer, broadscale gift and popular specialty mdse.; mailed to viable prospect files. | 3.7/M to 11.6/M | 8.4/M |
| Catalogs consumer, upscale gift and high-ticket specialty mdse.; mailed to viable prospect files. | 1.9/M to 9.4/M | 6.0/M |
| Catalogs, business & commercial, general supplies and equipment; mailed to viable prospect files. | 2.2/M to 9.8M | 5.1/M |
| Sale flyers, business; promotional and reduced-price merchandise.; mailed to viable prospect files. | 4.1/M to 13.5M | 7.9/M |
| Seminar booklets & broadsides, self-mailer formats, seeking registrations for various sessions. | 1.3M to 7.5/M | 4.8/M |
| Research questionnaires with lead-seeking promotional offer also enclosed; no direct tie-in; 1st class. | 50/M to 250/M<br>10/M to 45/M | 130/M*<br>26/M** |
| Solo mailing pkg. word-processed letter seeking sales inquiries with descriptive brochure; 1st class mail. | 7.0/M to 18M | 12/M |
| Newsletter new-subscriber-seeking mailing package, in 6"X9" envelope with enclosures; free sample offer. | 3.1/M to 9.5M | 6.5/M |

* Total response, questionnaire and promotional.
** Inquiries only, excludes straight questionnaire response.

Source: Shell Alpert; Alpert O'Neil Tigre & Co.

# SERVICE, PLEASE

Retailing. It's a tough business even when things are going strong. Now it's getting tougher.

A decade of mergers and acquisitions by non-merchants has loaded stores down with crushing debt. The best example is Canadian developer Robert Campeau, who overpaid for Federated Department Stores, parent of Bloomingdale's, in 1988 and is now mired in Chapter 11. B. Altman and Bonwit Teller, both acquired by Australian developers, closed last year.

Analysts say the influx of non-retailers and their over-extension of capital bred short-term merchandising strategies. "X-percent off" became the key phrase in an effort to draw consumers through their doors. This panic-pricing now is expected to change. At least, that's what they hope.

"They're trying to move away from price wars," says Linda Morris, retail analyst with Provident National Bank, who points to Federated as the prime instigator. "After Federated filed for Chapter 11, everybody took a breather and said, 'We're going to be okay.' "

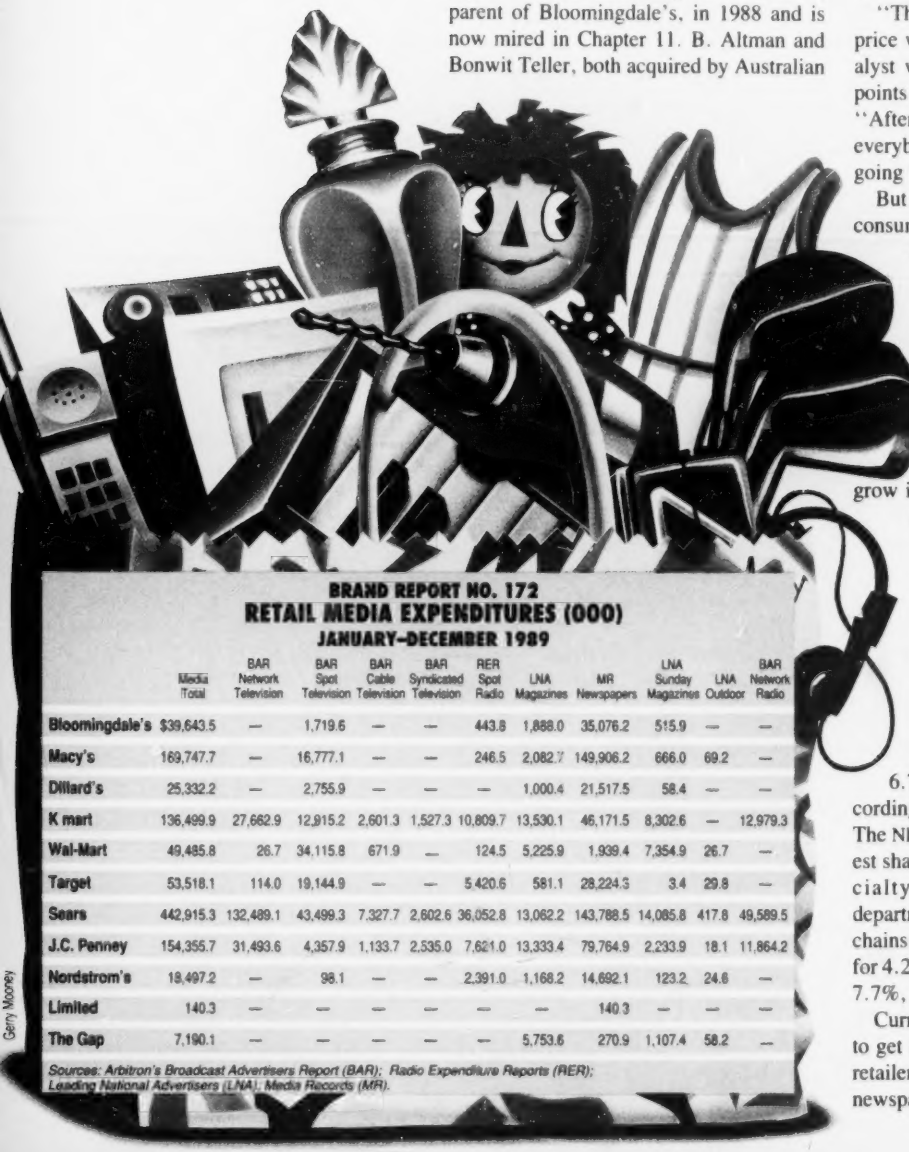
But first they'll have to convince anxious consumers that it's okay for them to buy again. It will be doubly difficult to do that while downplaying price and accenting service.

John Power, group vice president at Vitt Media International, thinks the shake-up will have retailers looking at different ways of using media. "In some cases the use of cable television will grow in importance," he says. "We have a lot of retailers who rely heavily on print and therefore miss major segments of the country, including young people and minorities."

The shift from print won't happen overnight. Moving to a different medium is a major change for department stores, specialty stores and chains, which last year rang up $108.2 billion in apparel sales, a 6.7% increase from the prior year, according to KSA/NPD Purchase Panel from The NPD Group. Discounters took the largest share of apparel sales with 27.6%. Specialty stores accounted for 23.3%, department stores took 21.8% and national chains took 15.4%. Mail order accounted for 4.2%, with all other outlets contributing 7.7%, according to KSA/NPD.

Currently, print is the primary route used to get the word out. In '89, the 11 leading retailers spent a total of $521.6 million in newspapers, compared to $191.8 million in

**by Brian Bagot**



Gerry Mooney

**BRAND REPORT NO. 172**
**RETAIL MEDIA EXPENDITURES (000)**
**JANUARY–DECEMBER 1989**

| | Media Total | BAR Network Television | BAR Spot Television | BAR Cable Television | BAR Syndicated Television | RER Spot Radio | LNA Magazines | MR Newspapers | LNA Sunday Magazines | LNA Outdoor | BAR Network Radio |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Bloomingdale's** | $39,643.5 | — | 1,719.6 | — | — | 443.8 | 1,888.0 | 35,076.2 | 515.9 | — | — |
| **Macy's** | 169,747.7 | — | 16,777.1 | — | — | 246.5 | 2,082.7 | 149,906.2 | 666.0 | 69.2 | — |
| **Dillard's** | 25,332.2 | — | 2,755.9 | — | — | — | 1,000.4 | 21,517.5 | 58.4 | — | — |
| **K mart** | 136,499.9 | 27,662.9 | 12,915.2 | 2,601.3 | 1,527.3 | 10,809.7 | 13,530.1 | 46,171.5 | 8,302.6 | — | 12,979.3 |
| **Wal-Mart** | 49,485.8 | 26.7 | 34,115.8 | 671.9 | — | 124.5 | 5,225.9 | 1,939.4 | 7,354.9 | 26.7 | — |
| **Target** | 53,518.1 | 114.0 | 19,144.9 | — | — | 5,420.6 | 581.1 | 28,224.3 | 3.4 | 29.8 | — |
| **Sears** | 442,915.3 | 132,489.1 | 43,499.3 | 7,327.7 | 2,602.6 | 36,052.8 | 13,062.2 | 143,788.5 | 14,085.8 | 417.8 | 49,589.5 |
| **J.C. Penney** | 154,355.7 | 31,493.6 | 4,357.9 | 1,133.7 | 2,535.0 | 7,621.0 | 13,333.4 | 79,764.9 | 2,233.9 | 18.1 | 11,864.2 |
| **Nordstrom's** | 18,497.2 | — | 98.1 | — | — | 2,391.0 | 1,168.2 | 14,692.1 | 123.2 | 24.6 | — |
| **Limited** | 140.3 | — | — | — | — | — | — | 140.3 | — | — | — |
| **The Gap** | 7,190.1 | — | — | — | — | — | 5,753.6 | 270.9 | 1,107.4 | 58.2 | — |

*Sources: Arbitron's Broadcast Advertisers Report (BAR); Radio Expenditure Reports (RER); Leading National Advertisers (LNA); Media Records (MR).*

combined network, spot and cable tv as tracked by Leading National Advertisers.

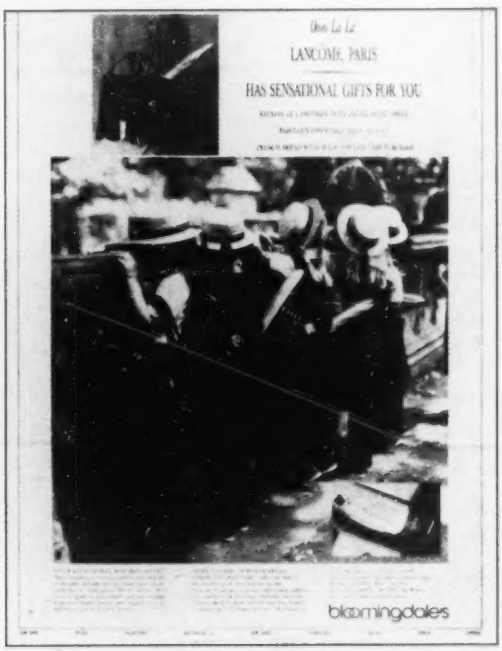
Co-op advertising is expected to rise about 2% this year, but it's hard to finger, according to Tom Rubel, executive vice president and principal with Management Horizons, a consulting company and division of Price Waterhouse. "It's one of those netherworlds, and nobody really knows how it works," he says.

Harry Bernard, president of Colton Bernard, a San Francisco and New York-based consulting firm, agrees regional tv is a growing media resource for department and specialty stores, but he says the print alternatives "haven't done enough to make it apparent they are cost effective."

The big national retailers are the heaviest users of network tv, and since they're carrying a wide mix of products from apparel to tools to toys, the programing mix is just as diverse. Sears, the largest retailer and media spender, poured $132.5 million in network tv during the December-January 1989 period, according to LNA, and bought shows that included *Full House*, *Guiding Light*, NFL Football, the New York City Marathon and *Family Feud*.

Rubel at Management Horizons thinks retailers are going to concentrate on keeping their current consumer base happy rather than stealing customers via price. "You'll see a lot more direct marketing activity, frequent-shopper programs, captive credit cards and progressive volume discounts," he says. "It's a fraction of the mass marketing, but as retailers start to focus in on their best customers, they'll start to realize that you just get incredible returns from that kind of [strategy]." Retail's marketing age has arrived.

Following is a look inside some of the country's major retailers based on square-foot sales, as ranked by *Apparel Merchandising*'s 1989 Retail Consensus. Department stores are represented by Bloomingdale's, Macy's and Dillard's; chains are Sears and J.C. Penney; mass merchants are K mart, Wal-Mart and Target; and specialty stores are represented by Nordstrom, The Limited and The Gap.




**Bloomies and Lancôme rely on gifts in this newspaper ad to attract cosmetics customers.**

### Bloomingdale's

No store demonstrates the woes of retail better — or worse — than Bloomingdale's. Once a symbol of self-indulgent shopping mania, the top-ranked department store, now in Chapter 11, must maintain cachet while watching its cash.

But its prestige positioning could help in the long run, says analyst Harry Rannala at McClean McCarthy. "If they can remain a free-standing entity and not expand dramatically, their mystique will remain intact." So far, so good, says Management Horizon's Rubel. "If you're a new prestige branded product, you're launched at Bloomingdale's."

That image could have been erased by Robert Campeau's earlier plans for the chain. Explains Rannala, "He was going to use Bloomingdale's to muscle into new real-estate. Well, part of its mystique is its lack of locations."

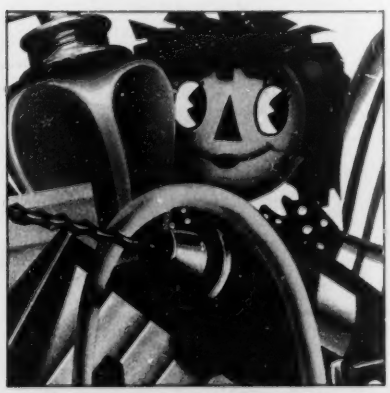
Advertising links a fashion image and upscale products in an umbrella approach that has little to do with price. Spending for in-house-created ads in 1989 was $39 million, says LNA, $35 million of which went to newspapers. Magazines such as *Vogue*, *Esquire*, *Metropolitan Home*, *Texas Monthly* and *Working Woman* divvied up $1.7 million, while $1.3 million went to spot tv. Total sales among the 17 stores in 1989: $1.3 billion, says *Apparel Merchandising*.

### Macy's

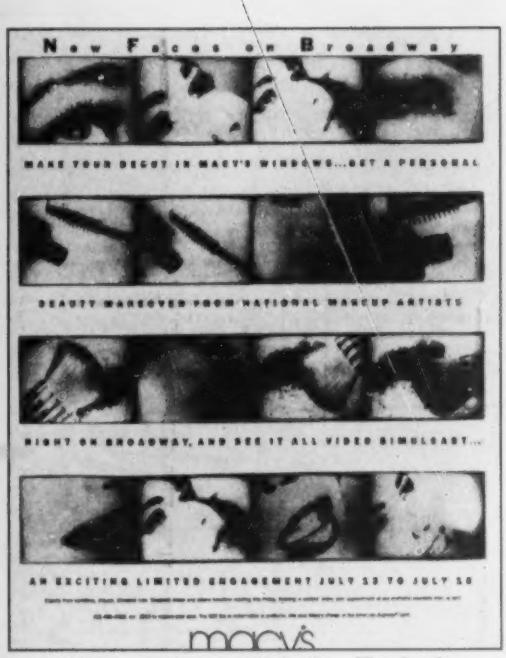
Macy's, like other acquisition-minded retailers, has heavy debt to pay. Management took the company private in an LBO several years ago, then went out and spent $1.1 billion on Magnum and Bullock's. With this load to pull, Macy's has unveiled a new game plan which has the chairmen of the different divisions providing the merchandising leadership, while the divisional presidents are tagged with expense controls. This move is expected to get stock turnovers back to 1988 levels of 1.31 times a season. Last year it was 1.17 times.

One observer sees Macy's reducing its one-day sales, while retaining value orientation and focusing on pre-season sales. "In other words, it'll build the promotions into the calendar rather than promoting to react to the market, which is what killed them last time," she says. "Because Federated is in just as much hot water, the company doesn't expect that competitors are going to force its hand." Macy's will continue to invest in customer service, she adds.

It's not likely that Macy's will significantly increase its ad budget. The company expects fewer promotions to affect sales volume, which should only rise about 4%. But profits should be better due to the new management system. Macy's 1989 sales were estimated to be $6.6 billion from 119 stores, according to *Apparel Merchandis-*



**Regional tv is a growing source of media, but the industry hasn't done enough to make it apparent that it's cost effective.**


New Faces on Broadway
MAKE YOUR DEBUT IN MACY'S WINDOWS...GET A PERSONAL
BEAUTY MAKEOVER FROM NATIONAL MAKEUP ARTISTS
RIGHT ON BROADWAY, AND SEE IT ALL VIDEO SIMULCAST...
AN EXCITING LIMITED ENGAGEMENT JULY 23 TO JULY 30
macy's

**Relying on audience participation, Macy's gives customers a chance to star in its makeup promotion.**

*ing*.

Media expenditures from its in-house agency for 1989, as tracked by LNA, totaled $169.7 million, with $149.9 million going into newspapers. Spot tv cost the company $16.8 million during the period. Magazine expenditures went to mostly upscale titles that include *Manhattan inc.*, *Southern Living*, *Vanity Fair*, *Elle* and *GQ*, at a cost of $2.1 million.

Macy's also sponsors its Thanksgiving Day parade, aired on network tv, and July 4th fireworks show. Both are held in New York, but they receive national coverage.

### Dillard's

Southwestern-based Dillard's is positioned as an upper-moderate to upper-end department store offering brand names at good prices. "It's not fashion-forward," says Woody Whyte, an analyst at Stephens Inc. "Basically it aims for middle America. They value-price the merchandise and maybe have four big promotional events a year." Hard goods are a strong performer since the store serves as the primary vehicle for these products in some areas.

Total ad expenditures reached $25.3 million last year, with $21.5 million going into newspapers. Just over $1 million was spent in magazines, including *Texas Monthly*, *Business Week*, *Seventeen* and *Sports Illustrated*, while spot tv took up $2.8 million of the budget. The company's agency is Tracy-Locke, Dallas. Whyte doesn't expect the ad budget to increase over the next 12 months.

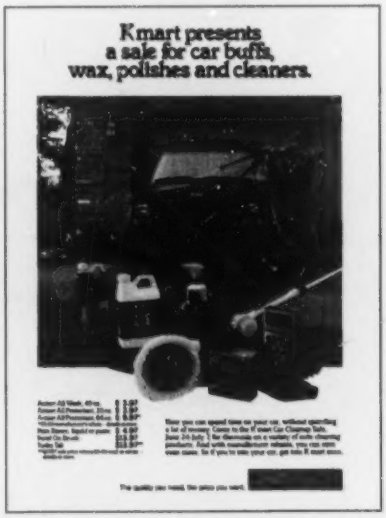
Dillard's has grown to over 150 stores through 20 acquisitions since 1956. Sales in '89 were $2.7 billion. "They tend to buy underperforming regional department-store chains. They go in, fix up the stores, put the Dillard name on them and just turn them around," notes Morris.

One tactic: remove a layer of middle management and replace it with a computer system. This allows Dillard's to put more salespeople on the floor. Another plus for customer service.

### K mart

Attention K mart shoppers, your stores are changing. Prices are staying low, but the stores are being expanded and modernized as part of an aggressive program for the nineties. This plan calls for the construction of 250 stores, 620 enlargements, 280 relocations and 30 closings. In addition, about 1,260 stores will be refurbished to bring their layout and fixturing up to new standards. So now, instead of just low prices, customers will get a nicer shopping environment.

Last year, the company reduced prices on thousands of items, but the low margins contributed to its earnings decline. Long term, the company thinks that since the turnover of items rose "significantly, we are confident that this program will enable K mart to maintain its pricing leadership," says Joseph Antonini, chairman, president and chief executive officer, in the company's 1989 annual report.




**Cleaning up on car care, K mart offers its prospects "The quality you need at a price you want."**

Customer service is also high on its list, according to Robert Henderson, retail analyst at Parker Hunter. "They're speeding up the checkout lines with new equipment that lets them register inventory, keeping the right goods on the shelves," he says.

Advertising from Calet, Hirsch & Spector Inc., Ross Roy Inc., and a house agency centers primarily on product and price and was a whopping $136.5 million last year, according to LNA, with $27.7 million on network tv, $46.2 million in newspapers and $13.5 million in magazines. The company targets a wide variety of consumers, and the magazine mix is an interesting one that includes *Family Circle*, *Cosmopolitan*, *Country Living*, *TV Guide*, *Popular Mechanics*, *Rolling Stone* and *1,001 Home Ideas*. Black consumers are reached through *Jet*, *Essence*, *Ebony* and *Black Enterprise*.

Network tv includes *Falcon Crest*, *Knots Landing*, *Cosby*, *Good Morning America*, NFL Football as well as game shows such as *The Price is Right*. Sales in 1989, according to *Apparel Merchandising*, were $29.5 billion from 2,408 stores. About $7.4 billion was from apparel.

### Wal-Mart

K mart may be the king of hitting the low price, but Wal-Mart doesn't keep its customers waiting for sales to get prices that scratch bottom. Rather, it offers everyday low prices, so consumers don't see recently purchased items on sale the following week.

Wal-Mart is also reaching out with two public relations efforts, an environmental project and a made-in-the-U.S.A. program. "It makes sense for their type of demographics, the middle American who is really concerned about America," says Provident's Morris. Wal-Mart also gets involved in community projects, such as sponsoring a Little League baseball team. "They want their name to be synonymous with good PR," says Morris.

Last year's advertising from GDS&M, Austin, Texas, ran up a bill of $49.5 million, according to LNA. Unlike most other retailers, Wal-Mart was heavy in spot tv, tallying up $34.1 million, while the usually heavily-used medium, newspapers, only received $1.9 million. This represents the everyday low price strategy and the lack of need to advertise promotions regularly.

Magazines were used strongly at a cost of $5.2 million, and represent a wide range of titles such as *Rolling Stone*, *Newsweek*, *Parents*, *People*, *Popular Mechanics*,

*Field & Stream*, *Parade*, *Woman's Day* and *TV Guide*. Wal-Mart generated $25.8 billion in sales from 1,402 stores in 1989, according to *Apparel Merchandising*.

### Target

If there's an upscale discounter, it's Target. Positioning itself above K mart and Wal-Mart, Target carries a range of products that are competitive with other discounters, but also offers some brand-name programs. "We're a fashion-forward discounter," says John Pellegrene, senior vice president, marketing for Target Stores.

With most stores in suburban locations, Pellegrene says the chain targets white-collar young families. "Our demos are very close to medium department stores," he says. "The Target customer is the same as department store, but for different products." Target has the same customer for their casual wear, sportswear, entertainment, toys and childrens' clothing, but they draw the line at career clothing.

To reach this customer, Target has added programs in tv and radio that feature a lineup of movie and music personalities that include Aretha Franklin, Amy Grant, Chet Atkins, Rita Moreno and The Judds.

"We use them to sell the total store," says Pellegrene. "They sell the concept of Target, what the whole operation stands for, the kind of merchandise it carries, the return policy, the way we treat the employees." Target also tries to get exclusives, as it has done with Alvin and the Chipmunks products and a program with Sherri Lewis and Lamb Chop.

Television advertising from its house agency and auxiliary agency Ruhr/Paragon, Minneapolis, which was primarily spot, was about $20 million last year, according to LNA.

**Peddling upscale, cyclist Greg LeMond is one of the stars in the Target stable.**

Sports marketing also plays a big part of Target's mix, including sponsorship of the L.A. Lakers, Kings and Dodgers, Minnesota Timberwolves and a CART race car. "We use the pro athletes and teams for a couple of reasons," says Pellegrene, "Target makes a major effort to be the Home town team in its local markets. We have 56 stores in L.A., so we make a major attempt to make that a Target market."

Target also has local events like ticket giveaways and sponsors parades, marathons, music shows and The United Way. Sales in '89 were $7.5 billion from 401 stores. Apparel sales totaled $3 billion, according to *Apparel Merchandising*.

### Sears

Sears spent a lot of money last year to overhaul its image on two fronts — everyday low prices, and fashion apparel. But did it succeed?

Several analysts think the everyday low price strategy has confused consumers because the new prices were higher than previous sale prices. On top of that, Sears continued to run sales. "That was difficult for them, and they're still sorting things out," says Dorothy Lakner, vice president, Deutsche Bank Capital. "Going to an everyday low price system really takes several years — you just can't do it overnight. Your stores are used to calling out customers by sending out circulars, and all of a sudden, if you cut off the circulars, no one comes anymore."

**Price, price, price. It's Sears' major selling point during its white sale.**

Sears is pursuing what Sheldon Grodsky, director of research for Kenneth Jerome & Co., calls a power format. "They're concentrating on areas that have as much attraction as a stand-alone store would." In other words, Sears wants customers to think of Sears when they think of, say, electronics. Sears is also trying to upgrade its fashion image in apparel, but Management Horizon's Rubel points out that "getting brands names is a part of it," something they've only just begun.

Overall, the retailer spend $442.9 million last year, as tracked by LNA, with $143.8 million in newspapers and $132.5 million in network tv. As the largest retailer across all categories, Sears is a store for just about everybody, which is reflected in it its ad placement. Network programing includes prime-time shows such as *Full House*, *48 Hours* and *Cheers*, as well as NFL Football, World Series and the *Tonight Show*. Soaps and game shows were also part of the network expenditures.

Magazines took up $13.1 million and included *Muscle & Fitness* and *Shape* magazines for exercise equipment; *Better Homes and Gardens* and *House Beautiful* for furniture; and *Newsweek* for office furniture and machines. As far as increasing the budget, Grodsky "wouldn't expect anything dramatic on the increase."

Retail sales were $31.6 billion in '89, according to *Apparel Merchandising*, with apparel sales hitting $6.2 billion. Catalog sales contributed about $3.4 billion to the overall sales, according to Lakner.

### J.C. Penney

It's taken ten years, but Penney is now perceived as a national department store instead of a chain store. It has more upscale brand names in its merchandise mix, including Van Heusen, Henry Grethel, Vanity Fair and Harve Bernard. To announce the new labels, Penney went with upscale advertising in fashion-forward magazines, such as *Cosmopolitan*, *Esquire* and *Glamour*, for its men's and women's apparel, at a cost of $13.3 million.

"The advertising has changed, and you see more advertising in upscale magazines," says Lakner. "The photographs are more elegant. Penney is trying to attract a different consumer; in the past it's been perceived as staid and un-trendy."

Overall advertising costs were $154.4 million last year, according to LNA, of which $31.5 million went to network tv on programs including *Falcon Crest*, CBS evening movie, professional golf and *The Price is Right*. Newspapers took $79.8 million of the budget last year.

Penney is also a leader in retailing technology with its decentralized buying system. "They have a direct broadcasting system in which buyers can present merchandise to the different stores, which can

**Dior is haute on Nordstrom's list in this national magazine ad. The store's apparel-only position separates it from department stores.**

then accept or decline it," explains Lakner. They've taken a centralized merchandise system and made it much more individualized."

Sales in '89 were $14.5 billion from 1,328 stores. Catalog sales were $3.2 billion.

### Nordstrom

Nordstrom is an upper-end apparel specialty store that competes with better department stores such as Saks Fifth Avenue and Neiman Marcus.

It spent $18.5 million in advertising last year, $14.7 million of which went to newspapers. Magazines got $1.2 million in high-end magazines such as *Vogue*, *Harper's Bazaar*, *Glamour*, *Elle*, *Architectural Digest* and *European Travel & Life* in an effort to capture both male and female fashion-oriented shoppers. The ads focus on fashion and merchandise, not price.

"They attract the educated, fairly well-to-do, price-conscious, value-oriented consumer," says Tony Howard, retail analyst with Crowell, Weedon & Co. "These people are willing to accept a slightly higher price based on the selection and service at Nordstrom."

Service is the key word here. All the salespeople are on commission, which is "a deviation from the rest of the industry where most people are on straight salary or hourly wage," says David Willimason, retail analyst for Advest Group, Inc. "They look for people who want to make careers out of selling."

Merchandise selection is also a draw, which is bought regionally. "One of the attractions of a Nordstrom is that even though about 70%-75% of the business is the same anywhere in the country, the balance is unique in each area, which really makes the store stand out," states Howard. "You can go to a Nordstrom in the Northwest or San Francisco or down here in L.A. and see a difference. This gives store managers more autonomy."

Sales for Nordstom were $2.7 billion from 59 stores, according to *Apparel Merchandising*'s ranking based on 1989 figures.

### The Limited

The Limited is positioned as a moderately priced sportswear specialty store for women aged 26-45. Over the past few years, it has changed its merchandising strategy to appeal to a slightly older, more professional woman.

The stores totaled $1.4 billion in sales in 1989, according to *Apparel Merchandising*. So it's hard to imagine that only $140,300 was spent on advertising last year, all of which was in newspapers, as tracked by LNA. But Janet Kloppenburg, senior analyst with Robertson Stephens & Co., supports this. "They don't have to get the word out. They have such prime locations in the malls that they primarily count on customer traffic." Although the company wouldn't comment, Kloppenburg says the company is considering advertising in the future.

It did advertise its Catalog of Fashions for Women last year in magazines that include *Ladies' Home Journal*, *Modern Maturity*, *Redbook*, *True Story*, *Essense* and *Woman's Day*. Total cost: $94,157.

### The Gap

The Gap is as a moderately-priced retailer of fashion oriented, casual, private-label apparel targeted toward an extraordinary wide range of consumers, from the vast middle market to the upscale. "Their ability to deliver good quality means they'll be able to appeal to a demanding, high-income customer on the one hand," says Edward Weller, partner, Montgomery Securities, "and their ability to deliver value consistently enhances their appeal to the moderate income customer."

Advertising last year as tracked by LNA totaled $7.2 million. But unlike most other retailers, the bulk of the money went to magazines, $5.8 million, while newspapers received only $279,900 and Sunday supplements costs $1.1 million.

Its "Individuals of Style" campaign is an artsy black-and-white print run from its house agency. It features cultural leaders, such as director Peter Sellars, pop singer Jody Watley, jazzman Dizzy Gillespie and comedienne/actress Whoopi Goldberg, photographed in Gap Basics, such as jeans and pocket T-shirts.

In addition to magazines such as *GQ*, *Glamour*, *New York* magazine, *Vanity Fair*, *Vogue*, *Rolling Stone* and *Sports Illustrated*, the ads rolled their way across urban centers in an outdoor transit campaign to the tune of $58,000, according to LNA.

Gap had sales of $1.3 billion in '89, according to *Apparel Merchandising*, from just over 741 stores.

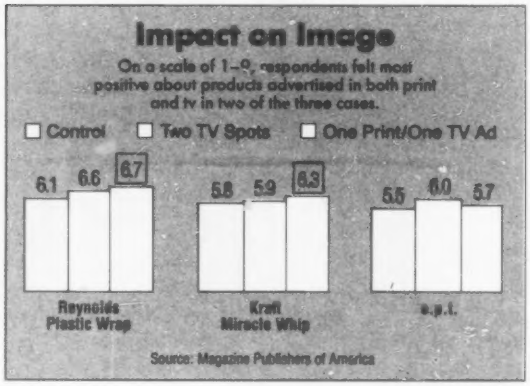
Capitalizing on its strong presence in the older-teen and adult market, The Gap branched out into the children's market with GapKids about four years ago, which offers a wide variety of clothing through 110 stores as well as 20 departments within larger Gap stores. And expanding on that idea, or shall we say shrinking it, is babyGap collection of infant clothing developed last year that's sold through GapKids stores. Its upscale Hemisphere stores, however, closed during the year ■

**Up-and-coming singer k. d. lang is typical of the trendsetters that model the Gap style.**

# TOOLS OF THE TRADE

## FINE-TUNING THE PRINT/TV FINDINGS

**Media people are beginning to work with the MPA's print/tv study. And they're finding a lot to work with.**




**by Wally Wood**

Wave I of the joint research project of the Magazine Publishers of America and J. Walter Thompson U.S.A. tested television and print ads for Reynolds Plastic Wrap, Kraft Miracle Whip salad dressing and e.t.p. pregnancy testing kits. To the MPA's relief, the research corroborated other mixed media studies: A combination of print and television advertising produces greater brand attribute communication than print or tv alone. (See *M&MD*, March '90, pg. 90.) Also, more people buy one brand versus its competitor when the brand uses print and tv together than when the brand uses print or tv alone.

This was the first test of its kind that did not use forced exposure, which Robert Warrens, senior vice president, director of U.S. media resources and research J. Walter Thomson U.S.A., believes makes it much more valuable than anything done previously. While consumers were brought into a laboratory for the research — which means the test did not duplicate the way people experience advertising in daily life — they were free to avoid tv commercials by changing channels and to skip the print ads by turning the page.

A full 22% of the sample managed to elude both the tv and the print ads; 44% saw only one commercial and one print ad; and 56% saw only the print ads and no commercials. Those figures must be sobering to those trying to calculate reach.

Also sobering was the discovery that most print ads initially volunteered for the research were not communicating specific attributes. For this study, researchers measured test ads against the norms of the top 25% of the ads tested, so they knew going in that their ads worked.

"When we say that this project shows advertising works and that print and television together work better," says Warrens, "we are really saying *good* advertising works." Earlier studies are littered with advertising that didn't work at all — let alone show incremental effect.

This issue — that many print ads do not meet basic requirements — is, for Bill Landgraf, probably the MPA study's strongest lesson. Landgraf, director of media planning for Kraft General Foods, points out that companies routinely pre-test their tv commercials; they don't pre-test their print ads. Will Kraft begin pre-testing its print ads? The possibility is being explored. "It isn't going to happen overnight, but we're working on it," he says.

Roger Baron, vice president and director of media research at Foote, Cone & Belding, Chicago, says the study's significance is that it shows that "even in this era of clutter, we're still showing that two media work better than one for most products."

Susan Smollens, vice president and group supervisor, communication information services, Young & Rubicam, feels the most important issue is how advertising works in different media. The MPA study implies that each medium has its own unique communications value. Knowing this, an agency can consider media selection criteria at the initial stages of strategy development.

But will the study actually change anything? Larry Roslow, vice president of media research at Lintas/New York, suspects change will come, if slowly. "The research groups and planners in my agency have been exposed to the MPA study and they've come away impressed. We hope they will give magazines more attention when they talk about media mix."

Meanwhile, the MPA is going into the field with Wave II, three men's products, this month and expects to announce the results by October, says Marian G. Confer, vice president, research director. There will be two more waves of three products each after this. The printed report of Wave I, "The Advertising Impact of Magazines in Conjunction with Television," is now available from the MPA. ■

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# ECONOMIC EYE

| MAGAZINE AD SCORECARD | Ad Pages June 1990 | % change from June 1989 | Dollars spent (000) | % change from June 1989 |
|---|---|---|---|---|
| 1. Skin Care, Creams, Lotions and Oils | 120.52 | -44.3 | 5,765.3 | -28.8 |
| 2. Lip and Eye Beauty Products | 95.85 | 6.1 | 4,532.0 | 25.3 |
| 3. Scents and Fragrances | 136.16 | 113.9 | 4,248.1 | 155.8 |
| 4. Facial Makeup Products | 48.0 | -22.4 | 2,037.4 | -14.7 |
| 5. Prepared Dinners and Entrees (including Pizza) | 35.01 | 61.0 | 2,201.8 | 40.4 |
| 6. Liquor | 527.27 | 21.1 | 23,896.0 | 27.6 |
| 7. Cigarettes | 466.63 | -28.4 | 28,561.6 | -12.9 |
| 8. Soaps and Detergents | 31.25 | 290.6 | 2,196.6 | 241.0 |
| 9. Passenger Cars, Domestic | 460.22 | -17.9 | 26,369.3 | -13.2 |
| 10. Passenger Cars, Imported | 310.66 | -5.2 | 17,290.7 | 3.2 |

*Source: Publishers Information Bureau as prepared by Leading National Advertisers*

## MEDIA COST INDEX

(The Media Cost Index is based on unit costs, which are the end-product of circulation/audience and CPM adjustments. They do not represent the efficiency of a given medium, only the out-of-pocket costs.)

**1985 = 100**

| | 1989 | | | | | | | | | | 1990 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Sep. | % change | Oct. | % change | Nov. | % change | Dec. | % change | Jan. | % change | Feb. | % change | Mar. | % change | Apr. | % change |
| Network TV | | | | | | | | | | | | | | | | |
| Daytime | 76 | -48 | 80 | -28 | 82 | +3 | 74 | +0.8 | 78 | +0.6 | 75 | +10 | 78 | +14 | 74 | +2 |
| Nighttime | 120 | +2 | 119 | +19 | 124 | +10 | 123 | +12 | 129 | +6 | 131 | +9 | 146 | +17 | 118 | +6 |
| Spot TV | | | | | | | | | | | | | | | | |
| Prime time | 117 | -15 | 116 | -9 | 128 | +23 | 130 | +1 | 148 | +5 | 130 | +3 | 127 | +2 | — | — |
| Daytime | 94 | -11 | 94 | -12 | 98 | -5 | 97 | -1 | 122 | +5 | 100 | -16 | 99 | +2 | — | — |
| Network radio | 127 | +14 | 142 | +8 | 139 | +11 | 131 | +10 | 173 | +10 | 157 | +11 | 152 | +9 | 147 | +15 |
| Spot radio | 112 | +7 | — | — | — | — | 114 | +4 | — | — | — | — | 118 | +0.3 | — | — |
| Consumer magazines | 124 | +7 | 123 | +7 | 123 | +5 | 123 | +3 | 130 | +7 | 131 | +8 | 131 | +8 | 131 | +7 |
| Natl. Sunday magazines | 141 | +10 | 141 | +10 | 141 | +10 | 141 | +10 | 132 | +2 | 132 | +2 | 139 | +8 | 139 | +8 |
| Business publications | 123 | +6 | 123 | +6 | 123 | +6 | 123 | +6 | 128 | +8 | 128 | +8 | 128 | +8 | 128 | +8 |
| Newspapers | 131 | +6 | 131 | +6 | 131 | +6 | 131 | +6 | 138 | +6 | 138 | +6 | 138 | +6 | 138 | +6 |
| Outdoor | 132 | +8 | 132 | +8 | 132 | +8 | 132 | +8 | 141 | +3 | 141 | +3 | 141 | +3 | 141 | +3 |

Notes: Percentage shown is relative change from the same month/period the year before. Newspaper figures reported for January and July only. Spot tv figures not available from Arbitron/BAR at presstime.

**McCann-Erickson predicts total worldwide ad expenditures will reach $264.2 billion this year, a 5.1% gain over 1989.**

Sources:

**Nighttime Network TV-** Cost per average 30-second spot, 7:30-11 p.m. Monday-Saturday and 7-11 p.m. Sunday from Broadcast Advertisers Reports' (BAR) Network TV Service.

**Daytime Network TV-** Cost per average 30-second spot, 10 a.m.-4:30 p.m. Monday-Friday from BAR's Network TV Service.

**Nightline Spot TV-** Cost per average 30-second spot, 7:30-11p.m. Monday-Saturday and 7-11p.m. Sunday from Arbitron/Broadcast Advertisers Reports' Spot TV Service.

**Daytime Spot TV-** Cost per average 30-second spot, 10a.m.-4:30p.m. Monday-Friday from Arbitron/BroadcastAdvertisers Reports' Spot TV Service.

**Network Radio-** Cost per average 30-second radio announcement from BAR's Network Radio Service.

**Consumer Magazines** estimate based on reported SRDS cost of a page, four-color in 40 national consumer magazines, as reported by Magazine Publishers Assn.

**National Sunday Mags** estimate based on published (rate cards) costs of a page, four-color in the national entries.

**Daily Newspapers** estimate based on Newspaper Advertising Bureau report of SRDS costs per column inch of a sample of 784 newspapers weighted to represent the universe.

**Outdoor Posters** based on estimate prepared by Institute of Outdoor Advertising.

**Spot Radio** index represents cost of a 60-second spot in the top 100 markets from data supplied to Radio Expenditure Reports by major radio representatives.

**Business Publications** estimates based on reported SRDS cost of a page, four-color in 48 publications representing 42 business and professional classifications.